Location unknown

CHAPTER NINE

Hoover's Farm Board

On November 6, 1928, Herbert C. Hoover was elected President of the United States. Hoover captured 444 electoral votes, and Alfred E. Smith could claim only 87. The Republicans also maintained control of both houses of Congress. To achieve this impressive victory, Hoover had made promises during the presidential campaign that he needed to fulfill. Some were to farmers.

Agriculture had commanded attention all through the 1920s, ever since the farmers realized that they could not continue the halcyon days under the special conditions of World War I and the immediate postwar period. The deflation in the 1920–1921 downturn had been especially severe for agriculture. However, based on the terms of trade (the ratio of prices received by farmers to the prices paid by them), by 1925, farmers were about where they were at the end of the war. This index fell back, but even in 1928 it was still not far from the level of the prosperous prewar years.

The several McNary-Haugen bills of that decade contemplated using the power of the federal government to dump enough domestic agricultural surplus abroad to raise prices in the domestic market, with the loss on the exports being paid by farmers themselves through an "equalization" fee. Other bills proposed to use tariff receipts to pay subsidies on agricultural exports; these came to be known as "export debenture" plans. Laced throughout these debates were new concepts of "parity." It was argued that agriculture was *entitled* to its fair share of the national income by keeping the farmers in parity with the prices that had prevailed in the years 1910–1914.

Herbert Hoover fundamentally opposed these proposals; he had stumped in the 1928 presidential campaign for the traditional American way of free competition and private initiative. His "rugged individualism" speech just before the election had become famous. Throughout the campaign, Hoover pictured agriculture as organizationally backward, a sick

industry, because it had gone to the extreme of individualism. He felt this bred destructive competition, abetted by a wasteful and inefficient marketing system. Farmers needed effective forms of collective action, he believed, and this led him to emphasize cooperatives. If the existing cooperative system could be strengthened, he concluded, it would lead to "orderly marketing," a term popularized in this period.

In the 1928 election campaign, agricultural issues were pressed, and Hoover responded by proposing a federal Farm Board, an institution that he felt would strengthen cooperative marketing while at the same time rejecting, as he put it, the "statist" approaches of the supporters of the McNary-Haughen bills and others. Shortly after his inauguration in March 1929, Hoover convened a special session of the 71st Congress to deal with farm relief and to consider some substantial changes in the tariff. The export debenture plan was advanced once more by the farm bloc but, faced with Hoover's hostility toward it, was finally rejected. On June 15, 1929, Congress passed and the President signed the Agricultural Marketing Act that was to provide the basic agricultural policy of the Hoover regime.

The Act eliminated the subsidy and price-fixing principles of the McNary-Haugen and the export debenture plans, but its provisions were even more significant in terms of a basic shift in United States agricultural policy. The federal Farm Board was charged with promoting the marketing of farm commodities primarily through agricultural cooperatives and certain government-established stabilization corporations. A revolving fund of $500 million was put in the hands of the Board, to be used for low-interest loans to the cooperatives and cooperative-owned stabilization corporations for the "orderly" purchasing, handling and selling of surpluses. Not only grains but cotton and some livestock were included as well. Underlying this was Hoover's belief that if cooperatives controlled a large share of the crop, they *could* influence prices.[1] If, indeed, Hoover was dedicated to "rugged individualism," the Agricultural Marketing Act version of this seemed destined to be a hybrid variety, collective rather than individual and, with the ruggedness dampened on any downside price risk by the use of the revolving fund to buy and hold grain, in the process hoping to hold prices up.

The crop season of 1929–1930 had barely begun when the the Act was passed. So the distressing events of the Great Crash in October 1929 were not yet anticipated. To the farmers, it appeared that they had realized most of their wishes—much of the language of the new legislation was similar to the old McNary-Haugen bill. One agrarian leader said it was "like sprinkling the stall with straw to make the old cow feel at home."[2]

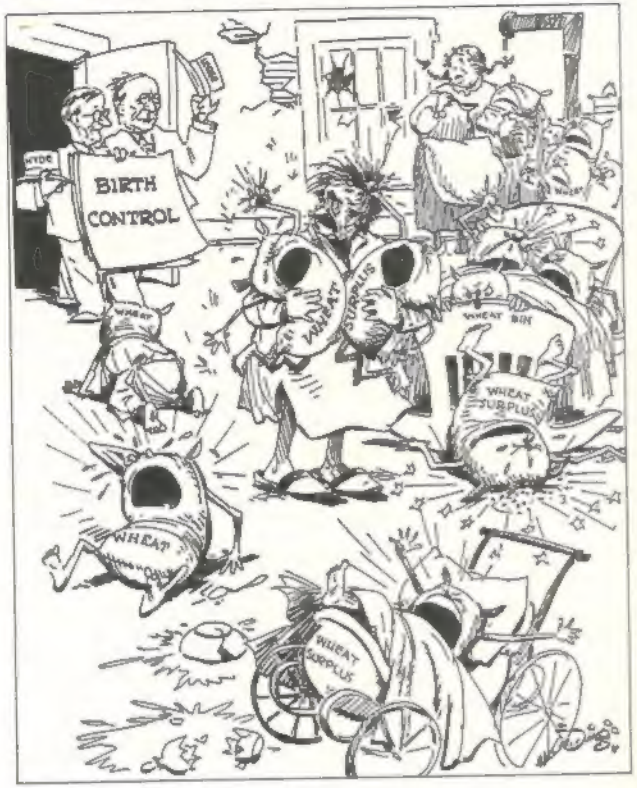
It did not look this way to the grain trade. Although Hoover had condemned the Democratic platform as state socialism, having the Farm Board turn to the cooperative movement seemed to the private grain trade to be a stab in the back. Hoover's new Secretary of Agriculture, Arthur M. Hyde, seemed to be a reasonable choice. The *Northwestern Miller* admitted that he "was not associated as a partisan with a radical farm relief crowd." Hyde was an ex-governor of Missouri with little past involvement in farm policy. John Jr. wrote his father that the secretary-designate "could not be expected to be anything like as friendly to the grain exchanges as was Wallace, which does not sound any too good." This was Henry A. Wallace, a Republican aspirant to the post who later switched to the Democrats; he was a son of Henry C. Wallace, the Secretary of Agriculture in the early 1920s. However, Hoover's appointments to the Farm Board were felt to be more positive—"little nourishment to any of the pink tinted farm relief leaders," said the *Northwestern Miller*, which believed that Alexander Legge, former president of the International Harvester Company and named as head of the Farm Board, was "a man of the highest business standing, capable, honest and possessing the confidence of business."[3]

Still, the grain trade felt itself threatened by the Act. John Sr. captured the prevailing mood of the industry in a letter to J. Morris Barker (the son of Margaret "Aunt Maggie" Barker), who was then administrative assistant to William E. Hull, United States representative from Illinois: "I have realized ever since the Republican party and Mr. Hoover put themselves on record for this character of legislation that we could not expect anything better than this bill. . . . It is economic folly. . . . I feel it is going to bring the country to the verge of disaster in the end." Cargill MacMillan verged on alarmist; the Act, he felt, "presents a menace to the whole structure of American political philosophy of the very gravest nature" and to the "Anglo-Saxon code of law."

Barker, closer to Cargill's generation than to John Sr.'s, tactfully downplayed their views, writing John Sr.: "I can remember Uncle Sam [Sam Cargill] saying in 1895 that there was absolutely no future for the grain business, but there have been prosperous times since then . . . although business may be done in an entirely different way. . . . John Jr. and Cargill, who are young enough to adjust themselves to new conditions, will live to see prosperity crown the efforts of those who are intelligently sticking to the business. It is possible that the wish is Father of the idea."[4]

The 1928–1929 crop year reinforced John Sr.'s more pessimistic view. Despite a drought and lowered United States production, the impact of the stunningly large 1928 wheat crop kept the surplus high. Wide publicity given to the Agricultural Marketing Act had the effect of holding off buyers, both domestic and foreign, who anticipated a possible price drop. John Sr. wrote T. F. Baxter, his Boston banking friend, "instead of attempting to clean up this year, we will keep our terminal elevators filled . . . we will show an enormous inventory and corresponding enormous bills payable. This is, of course, thoroughly understood by our bankers."

The call of the community welfare doctors.



Ding Darling, December 11, 1930 (by permission of the University of Iowa Libraries [Iowa City]).

Cargill's June 30, 1929, year-end closing figures corroborated this: inventories had been $3.5 million on the same date the previous year and now were $12.6 million; the notes payable had been $2.3 million the year before and now were $11.5 million. The "plugged" terminals brought the Company large carrying charges, which earlier John Sr. had told A. M. Prime were "wonderful" but now just made him nervous. Soon he began to push John Jr. to cut back on fobbing: "I have limited Julius in net increase . . . of the wheat account . . . to just such business as represents turnover. The sales which he made yesterday were all c.i.f. Buffalo, so that turns itself into money promptly and I prefer to sell that way unless we can get a profit."[5]

The private grain trade distrusted the new law, especially because the apparent guarantee to the farmers of no price declines would artificially preclude price fluctuations—no longer would prices in the United States

be subject to normal supply and demand fundamentals (although no similar constraints could, of course, be imposed on foreign markets). For hedgers, this warped the very concept itself, for if prices only moved upward or even remained frozen at the existing level, normal patterns would be distorted.

The early actions of the Farm Board allayed some of these fears. John Sr. wrote John Jr. on July 30 about Alexander Legge's first meeting with a group of 32 farmer-owned grain cooperatives: "There was no abuse to the grain trade at the meeting and . . . I do not believe that they could have adopted any program that would have been any less radical. . . . Mr. Legge made it very clear that the Farm Board have no intention of loaning money except on a basis that will be safe to the government . . . did not intend to go into competition with bankers and others loaning money . . . each corporation would have to utilize all its avenues of credit before it could get any relief from the Farm Board . . . this was a very great shock to existing pools." One of these pools soon came to dominate the cooperatives.

The Birth of "Farmers National"

The Farmers National Grain Corporation was formed in October 1929, a new central organization to bring together existing cooperatively owned elevators, terminals and wheat pools and farmer-directed sales agencies into a single unified marketing organization. In early 1930 centralized units also were formed for cotton and livestock, and later, similar national associations were established for wool, beans, pecans, sugar beets, fruits and vegetables.

Prices began to slide, despite predictions earlier in the year 1929 of an upward trend. Particularly disturbing was a full 8-cent decline in wheat on October 24. When the stock market crash came, on October 29, it fundamentally changed everything. The Senate Committee on Agriculture held hearings, struggling to understand the situation in agriculture. In the process, as *Nation's Business* reported, it inflicted "several days of torture upon Mr. Legge . . . those inquisitors examined all of Mr. Legge's mental and financial joints and expressed contempt and insult for each of them in turn." The Committee urged Legge to be more lenient toward the cooperatives, indeed, to concentrate on them. Legge capitulated.

Now the private grain trade became really worried. Were they to be bypassed in the government price-support efforts? John Sr. issued a widely publicized statement that the Farm Board "price fixing . . . is in utter violation of their pledge" and that "it threatens to destroy all existing agencies and markets." His words were featured on the front page of the November 17, 1929, *Minneapolis Journal*. The Minneapolis Grain Commission Merchants Association contacted Legge four days later: "Any price

basis established through the use of government funds should be made free to all farmers, whether or not in the exercise of their individual judgment they decide their interests were best served by membership in a cooperative organization"; otherwise, "all independent elevators together with line elevators cannot operate as grain merchants."

Legge *had* changed his views, for his response was discouragingly cool: "You gave your support to the passage of the Agricultural Marketing Act, therefore it is fair to assume that you knew what the Act contained. However, your telegram might lead to another conclusion. I am, therefore, sending you a copy of the Act, from which you will note that the building up and encouraging of cooperatives is especially enjoined on us." John Sr., shocked by this rejoinder, immediately left for Washington to see Legge personally. He telegraphed John Jr. after the meeting: "Legge very much surprised that the grain trade are excited and worried. Says Farm Board have no thought of injuring those having property interests. Admits their plans might injure commission merchants and speculators as they expect to prevent violent price changes. . . . The radical senators are making it very difficult."

This was cold comfort for MacMillan and his private-sector colleagues. A few weeks later, the Minneapolis private elevator operators complained to Legge that William Kellogg, the head of Farmers National, "intimidated" them, trying to get preferential rates. Legge lashed back, "Some of those chaps up there seem to think that the Lord gave them a special right or franchise to trade or speculate in the farmer's products."

The industry was most galled about the allegation that the private middlemen were somehow less efficient, indeed, even dishonest "monopolists." John Sr. wrote a friend that the trade was "in the remarkable condition of being the most efficient industry probably in America and at the same time the most discredited." Stanford University's *Wheat Studies* analysts agreed about efficiency: "The world over, the wheat trade has operated on a narrow margin of profit under sharp competition . . . the middleman objects to being displaced with the use of government money at a low rate of interest, outside of a competitive determination on the basis of service and efficiency." Yet the producer had a "native right" to market his grain; indeed, he "has the aspiration to market his product even if he does so less efficiently than middlemen."

Alexander Legge did have to live with farm-state senators' hostility toward the private grain trader. Gerald P. Nye, the vocal senator from North Dakota, was quoted widely in the public press on a speech he had made in the Senate that the "grain men were out to wreck the U.S. farm aid program." According to one paper, Nye accused "one company, operating in Minneapolis, Milwaukee and Duluth, of trying to frighten farmers' elevators out of participation in the cooperative efforts undertaken by the Federal Farm Board." This was a reference to a statement made by John Sr. in the Minneapolis paper on November 17, in which he had said, "I am utterly astounded that our Administration should permit so unsound a system to be fastened upon this country. It means that all farmers shall be forced into cooperative concerns, which could only mean pools and monopoly. . . . Monopoly always means waste and inefficiency."

Hostile letters against John Sr. from farmers began appearing in the press. One letter writer asked, "How much grain does Mr. MacMillan produce?" Others complained of the profits of the grain trade. John Sr. reacted defensively, citing the Company's small wheat project at Valier, Montana, and quoting secondhand an elaborate argument that the farm machinery manufacturers were the real culprits, that four of these had combined profits of over $97 million, whereas the grain trade, if it handled one-half of the 1929–1930 wheat crop, would net only about $2 million. John Sr. added, "If the grain trade contributed their services and worked for nothing, the farmer would never know the difference." This was a curious assault by John Sr., for it was an invidious attack on another industry, not in keeping with John Sr.'s usual decorum. He did agree that the mushrooming growth of automobile, truck, tractor and other power machinery on the farm was "a complete revolution" but felt the farm problem could not be solved by political action. Rather, "each farmer must work out his own problem in his own way . . . that is the only safe and sound way of going at it." He defended his own industry by adding: "Unfortunately it has been a popular pastime to chase the grain trade and yet they have been, and still are, the best friends the farmer has ever had. They have given him the most perfect marketing system that has ever been devised." In light of instances over the years where farmers had been taken advantage of by grain traders (see earlier chapters), the word "perfect" seems excessive![16]

Pressures on Legge now became very strong. When the United States Chamber of Commerce condemned "the employment of public funds for the purpose of participation in business in competition with established agencies," Legge felt compelled to make a public statement. In this, he pointed out that "the Board did not alter its policies as a result of a hearing given to the grain trade, nor has the Board agreed to submit its policies to the grain trade before action."

The Legge rejoinder stung the grain trade. Barker wrote John Sr., "The radical farm bunch is not going to be satisfied with anything but the complete annihilation of the old order of carrying on the grain business." Sumner B. "Ted" Young, a friend of the MacMillans and later counsel for Cargill, told Cargill MacMillan, "I have a kind of gloomy foreboding that . . . the grain men will find themselves alone, just as the railroads, the utilities, the packers, and the livestock commission men found themselves

all alone when it came their turn to take it on the chin. . . . Congress and the Public have become pretty hard-boiled about putting people out of business."[7]

The messy argument about the Farm Board in Congress, in the press and in the general public now had sharp repercussions in the industry. In late December 1929, a holder of some of Cargill's notes refused to take more from one of Cargill's investment banking intermediaries, Goldman, Sachs & Company: "You may be surprised at our returning . . . the paper. . . . I understand that Mr. MacMillan, who endorsed the paper, is a very high type of person and does exactly as he says he will. However . . . even though they may have hedged a lot of the grain which they have in inventory, their loans are very heavy. . . . If Mr. Legge agrees to make government loans at a considerably lower rate than the market rate which independent concerns must pay, the independents will be competing with the government—possibly to such an extent that they will succumb."

A worried John Sr. quickly suggested a text for the investment bankers' reply: "Loans thru the Farm Board to co-operative farm organizations . . . are not competitive with the grain concerns at all at the present time, and could in no event be a factor until the Farm Board have made their plans and have announced what their purposes will be. This could not possibly apply until the crop which will be marketed in the fall of 1930." John Sr.'s protestations notwithstanding, the loan was denied.[8]

The Farm Board "Bulls the Market"

When the crash occurred in October 1929, the Farm Board extended the loan program on wheat so that growers could hold their own grain to avoid congested grain storage. The large crop carryover had created shortages of storage space in the Midwest and Southwest regions. When vociferous members of the farm bloc advocated that the cooperatives step up their ownership of elevator and terminal space, John Sr. led a group of his industry colleagues in the Northwestern states, in January 1930, to make a publicity-grabbing "tender" to Alexander Legge, the Farm Board chairman, to sell a string of country elevators to the cooperatives: some 275 in Minnesota, 698 in North Dakota, 163 in South Dakota, 173 in Montana, 17 in Iowa and 1 in Nebraska. "The offer is made in good faith," they wrote Legge. "The control of the properties . . . will enable the Farm Board to make a fair trial of its proposed experiment in orderly marketing."

Essentially the same offer had been made by this group to the American Farm Bureau Federation back in 1924, when the Federation was proposing that cooperatives own more elevator space. At that time, too, there had been no intention of following through. Legge saw through the guile of this replay, penning a sarcastic return: "Except for your statement . . . that

"Concerned crowd gathered outside New York Stock Exchange during the 1929 Wall Street Crash" (The Bettmann Archive).

the offer was made in good faith, I would certainly not have taken it seriously. . . . What is there for you to worry about in competition with a bunch of poor farmers who have had but little in the way of a background of experience to support them?" The crocodile-teared offer had backfired. As David Miller, a chronicler of Farm Board history put it, "by February, 1930, the Farm Board and the grain trade were at war."[9]

At this point, another new organization was formed by the government under the aegis of the Agricultural Marketing Act: the Grain Stabilization Corporation. It was to work with the Farmers National Grain Corporation to "stabilize" prices. The Stabilization Corporation was to relieve the farmer cooperatives of their heavy inventories of grain. It was nominally owned by the participating cooperatives, but in reality the Farm Board called all the shots. These two units began to buy aggressively, beginning in mid-February 1930. By late March, they held about 25 million bushels of grain. By the close of the crop year, this was 60 million bushels.

Yet this competition might not have been too severe for the private grain trade—there was still much grain to be purchased from outside the cooperative group—had not some of the Farm Board policies for buying distorted the whole market. An early series of mistakes tarnished the Farm Board's reputation such that it never fully recovered. It announced that it would buy only "country run" wheat at country points under an assumption that the farmers and country elevators needed surcease from their own "glut." However, there was less wheat out there than the Board assumed, and the country prices quickly rose to 10 or 12 cents above terminal prices. The trade immediately responded by shipping grain back to the country, an illogical, ludicrous reversal of the pipeline. Ridiculed for this, the Board soon reversed itself.

The Board then decided to supplement its cash buying by purchasing long futures contracts. Once more, myopia took over—the Board made the inexplicable decision to buy only March and May 1930 wheat futures and only on the Chicago Board of Trade. This contradicted a long-standing pattern in futures markets. In a normal or surplus crop year a "carrying charge" price structure is expected—purchases of grain early in the crop year can be hedged in futures later in the year that carry a higher price. This makes intuitive sense. Physically holding the grain for this part of the crop season involves costs—unloading, storing and outloading costs, as well as insurance—but these costs can be recovered through the "carrying cost" relationship of future prices.

The Farm Board, however, proceeded to act with an apparent belief that its only concern was current price. When it found that its purchases of physical grain were not supporting price, it entered the futures markets in just those two contract months. The *Northwestern Miller* captured the grain traders' fears about this new tactic:

> The Federal Farm Board put on its ceremonial hat, took its speculative fortune in its hands and boldly entered the Chicago pit in a belated campaign to bull the wheat market. It did not enter in the fashion of its distinguished predecessors, "Old Hutch," Armour, Leiter, et al, with no incentive but that of personal fortune [but] came down into the pit of iniquity clothed in the mantle of liberty, protected by the shield of equality and waving the sword of fraternity shouting "back to your dens, bears, the co-ops are coming!" It plunged into the fray up to its bureaucratic neck. And it bulled wheat.

The *Wheat Studies* editors were harshly critical: "It is evidently the policy of the Stabilization Corporation to support the price of wheat futures . . . during the trading months of the current crop year, allowing the futures of a new crop to go unsupported. This has the effect of basing the price of futures during the current crop on domestic conditions. . . . leaving the futures of the new crop to be based largely on world conditions . . . In effect, the Grain Stabilization Corporation tries to improve the current price of wheat, allowing the price on the new crop to be determined by developments."[10]

Thus, the Farm Board strategy was short-term. The effect on existing prices was ruinous. The private grain trade had purchased large quantities of grain under the assumption of a carrying cost basis between the early part of the year 1930 and the futures prices of July 1930 and later. When the May price was pushed upward by the Farm Board support efforts, the carrying cost relationship disappeared.

The Farm Board created further consternation by its avowed aim to hold its March wheat contracts until the contract terminated, then take actual grain. Thus, physical grain had to be delivered to Chicago by the shorts to fulfill these contracts. Most of these short contracts were held by private-sector grain traders, but a substantial amount of their physical stock of grain already had been moved forward in the pipeline to eastern terminals. Cargill, its Midwest storage already glutted, had shipped large amounts of grain through the Lakes to the Buffalo and Ogdensburg, New York terminals, paying transportation costs to get it there. If this eastern grain had to be used to fulfill the short contracts, either by physical movement back to Chicago or some compensating trade, the grain traders wanted to recover the transportation costs they had already expended on it. The Farm Board refused to allow this.

The *Wheat Studies* authors called the Farm Board "a cold-blooded super-speculator," a surprisingly subjective comment from the eminent Stanford University group. The press also took up the cudgel for what had been dubbed by many as the Stabilization Corporation's "May Squeeze." It was "a first class way of throwing good money into a bottomless pit," complained *The Nation* on March 26. John Sr., outraged, fired off missives to everyone in Washington about the Farm Board "squeeze." In a telegram to Walter H. Newton, secretary to President Hoover, he compared the Farm Board efforts to "those employed by the Armour Grain Co. in their spectacular, if disreputable, career." In another telegram to Secretary of Agriculture Arthur Hyde, he fumed, "We are astonished that your Board could be a party to such a flagrant manipulation."

John Sr. had been attempting to run this public relations campaign from his vacation hotel in California, where he went every winter. Now John Jr. joined the effort. Clearly, he was more combative in his approach. In the thick of the battle, on February 3, 1930, he telegraphed his father about a grain trade lobbyist's admonition that they should be more temperate lest they "needlessly irritate the Board." John Jr. vehemently disagreed with the lobbyist: "This would be a serious mistake . . . now that the Board is showing signs of being embarrassed this is the proper time of making public our statement. Suggest you wire these gentlemen to stiffen them up." In Bozeman, Montana, the next day, a John Jr. speech harshly de-

nounced the Farm Board, so much so that the press in that area began "giving unfortunate type publicity" about John Jr., according to one of his friends.

Others were concerned not to alienate the government; the Chicago Board of Trade had even decided against forming a regular standing committee on the issue because, according to B. H. Woodworth (one of the two signers with John Sr. of the country elevator proposal), "it would become known and would be assumed that the committee was formed for the purpose of antagonizing the Farm Board." John Jr. believed this was temporizing, and it infuriated him. He wrote his father of his irritation with the Minneapolis Chamber of Commerce: "Our Publicity Committee here has completely reversed itself and is now refusing to give out anything which in any way looks like criticism of the Farm Board or its policies. I am completely disgusted with the conduct of our Anti-Farm Board Campaign . . . we are getting nowhere. I still suspect that Mr. Jaffray and the President must have come to some agreement to the effect that the Farm Board would leave us alone if we would leave them alone, altho everyone denies it."

With criticism mounting, the Farm Board began to ease off on its purchases. John Sr. urged Walter Newton, secretary and administrative assistant to President Hoover, to suggest to Legge "a formal announcement by the Board that it is not their intention to run a corner in any market or any month and that they intend to do their utmost to see that relationships approximate normal." Legge responded, "I do not see how we can undertake to restore the parity between May and July contracts, as July is to all intents and purposes a new crop month. What the Stabilization Corporation is doing at the present time is removing the surplus of the 1929 crop only." John Jr. immediately went to Washington to see Legge about what Cargill felt were his negative responses. It did not work. Legge made it plain that he felt Cargill was exerting untoward pressure on the Farm Board by persuading outsiders to write critical letters. John Jr. wrote Legge on his return to Minneapolis: "Both Mr. Lindahl and I were very much concerned with your statement that on our advice our customers and friends had been wiring the President and other officials. . . . Attached hereto is a copy of the message sent to these people. You can see that our advice was to wire Mr. Barnes as chairman of the United States Chamber of Commerce rather than to any government official." John Jr.'s statement, however, was not really in line with the facts. Legge, apparently wanting to cool the rhetoric, answered, "While we cannot agree with some of your criticisms and suggestions, yet we are always glad to have the opinion of experienced people in the trade like yourself."[11]

The rapprochement did not last. At the United States Chamber of Congress annual meeting, April 30–May 2, both Legge and President Hoover

addressed the gathering. A dramatic confrontation resulted. Between the time of Legge's speech defending the Farm Board and Hoover's address, the Chamber membership body passed a resolution, introduced by Minneapolis grain traders, calling for the Board to halt loans to the cooperatives and to cease their buying and selling for "stabilization." Reporters besieged Legge for a reaction, and he responded that the Chamber was "for something to help the farmer only until they find out it works." Legge also acknowledged that it was "much easier to deal with an enemy who is squarely against you than one who pretends to be friendly but fights behind your back." Hoover's speech played down the Chamber's repudiation of Legge, but damage had been done.

The farmers, however, were delighted with Legge's tweaking of the businessmen's noses, and farm organizations and the farm press responded enthusiastically. Charles Hurst, president of the Iowa Farm Bureau Federation, even introduced some midwestern chauvinism, calling the Chamber resolution a "direct affront" to the farmers of Iowa and further evidence that that organization was willing to subjugate agriculture "to the personal interests of the industrialists east of the Mississippi River."[12]

By midspring, rumors surfaced of an incipient drought, and the resultant scare boosted wheat prices for a while, easing some of the differentials. By July 1930, the Farm Board buying had been cut back, and its influence on the market was reduced. Morris Barker wrote John Sr. on July 2: "I doubt if you will ever have a repetition of what happened last year . . . they are pretty well inclined to let the grain trade function through the regular channel. Another case of the burnt child fearing the fire."[13]

"Delivery" at the Chicago Board of Trade

The Farm Board concerns were momentarily supplanted by another issue in the fall of 1930, this time relating to the Chicago Board of Trade. Although not momentous in the overall scheme of things, it led to mounting antagonism by Cargill toward the CBOT.

When it was rumored that the CBOT was planning a tightening of delivery rules for grain being tendered in Chicago in fulfillment of futures contracts—a plan that would disadvantage companies like Cargill, still with no Chicago office—John Sr. made a decision to go over the head of the CBOT to the federal government itself. He sent the complaint to Dr. J. W. T. Duvel, who was chief of the Grain Futures Administration in the United States Department of Agriculture. After urging Duvel that "nothing should be done that would in any way make it more difficult to deliver grain on hedging contracts," John Sr. mounted a biting attack: "There is an element in Chicago that has always been opposed to the existing rule because they are interested purely in manipulative tactics on the theory

that the hedger had to hedge off-grades of grain and has grain hedged that they cannot afford to deliver in Chicago, and therefore under conditions of small stocks that they can squeeze the hedger by buying up a greater line of futures than is possible to deliver."

The proposed new rule *was* meant to narrow delivery possibilities; "grain in cars" deliveries during the last three days of a particular contract would have to go to a "regular" warehouse. The CBOT required bonds to be posted, and the warehouse had to be on water as well as rail, "approachable by vessels of ordinary draft." John Sr. pointed out to Duvel, "there are only about fifteen million bushels of 'regular' storage in Chicago. At one time last year there were over 240 million bushels of open wheat contracts alone, to say nothing of oats, corn and rye . . . if the hedger is not properly protected . . . there is always the possibility of squeezing him and without permanent benefit to anyone." He concluded: "If you will talk with the bankers of this country you will find that the whole basis of credit operations for the movement of the crops is based upon the theory that hedging contracts represent really price insurance . . . if anything is done to break down the present theory of hedging contracts . . . it might demoralize the credit on which the crop movement is dependent."

A few days later John Sr. sent the same letter to a number of bankers and also to Arthur Hyde, the Secretary of Agriculture. Hyde asked the CBOT to postpone of the vote. The Exchange leadership ignored Hyde and voted the more restrictive changes on October 6. The day after, John Sr. wrote J. M. Barker: "The Chicago Board of Trade yesterday passed two drastic changes in the rules which are giving us a great deal of concern, as it stops the possibility of making deliveries in Chicago excepting in store in public elevators . . . we are fearful of continued efforts to manipulate there . . . it simply kills Chicago as a hedging market."

John Sr.'s dire predictions about damage to hedging in Chicago did not prove well-founded, and trading continued more or less as in the past. But the fact that the CBOT was willing to push its own agenda, ignoring out-of-town interests and despite exhortations from the Secretary of Agriculture, seemed to the Cargill group a cautionary portent of future relationships with the Exchange.[14]

International Complications

The Farm Board's domestically oriented policy troubled John Sr. on another score. He wrote George Roberts, a banking friend in New York City: "We have created untold ill feeling in Europe . . . they have . . . enlarged their own grain acreage . . . to take care of home requirements . . . [and] have developed trade relations with Argentina and Australia to get such surpluses they must from those countries."

There also was a surprising new international entrant into the United States grain trading scene—the Soviet Union. In Josef Stalin's Russia, the First Five-Year Plan had required purchase of great volumes of machinery and machine tools from other countries; the only ready currency the Soviet Union had at that time for payment was its wheat. Despite a devastating famine in the Ukraine involving wide starvation, Stalin made the calculated decision to send great volumes of the country's grain abroad. The need for hard currency for machinery led the Russians to throw more and more wheat into the market, causing prices to sag more and more. This brought outrage and opprobrium from the rest of the world's wheat sellers. But Stalin was quoted in the *New York Times*, in an interview with the newspaper *Nichi Nichi*, as responding: "We can afford to supply wheat to foreign countries at lower prices than rival countries because we do away with all speculators and brokers. It is ridiculous to accuse us of dumping, since we do not sell our wheat any lower than production cost."

As part of their strategy, the Russians began to make short sales on the Chicago Board of Trade. In a four-day period, September 8–11 (1930), they quietly sold some 7.5 million bushels of wheat futures, apparently as hedges for extensive cash sales they were contracting for in Europe. While the totals were themselves not great, when it became known that the Russians were the shorts, a hue and cry arose. Herbert Hoover decided to make an issue of it and instructed Secretary of Agriculture Hyde to condemn the sales as an "injury" to the American farmer and to press the CBOT to abolish Russian use of the futures markets. The CBOT diplomatically sidestepped a confrontation with Russia by passing a resolution (on September 27, 1930) condemning short sales by *any* foreign government.

Many in the grain trade disagreed with this, arguing that the Russians had just as much right to trade in the futures market as the International Harvester Company had to sell farm machinery to the Soviets, a poorly disguised allusion to Alexander Legge's old company. In both cases, the purpose was producing grain in competition with United States farmers. The *Northwestern Miller* remained intransigent about the Soviets, holding that "what applies to Russia applies to no other nation or people . . . its purpose is to destroy all order, as we understand order. . . . It has repudiated its country's debts, sought by devious means to break down the governments of other nations and openly boasts of its purpose to wreck the scheme of capitalism upon which the economics of the rest of world are founded."

The Russians stopped using the CBOT, but they continued to disrupt the European grain markets. The Five-Year Plan was immutable in terms of needs, and grain was to be the mechanism—it was one of the few concrete assets the country had at this time. Art was another; at the same time,

Andrew Mellon bought some of Russia's great treasures for the new National Gallery he was sponsoring in Washington, D.C.

Julius Hendel left for Europe in January 1930. He wanted to see his relatives in Russia during the trip and had gone through considerable trouble in Washington to obtain a visa, not an easy thing for an American citizen with Russian relatives. John Sr. wrote Hendel in mid-February that "this Russian business is paralyzing" and asked Hendel: "If you go to Russia, try to find out what the prospects are, for they are really putting this program across, but be sure you do not go unless you get guarantees that you will be able to come back."

Once in Europe, Hendel received further warnings about the threat of not being able to get back out of Russia and finally decided not to cross the Russian border. It was a sad decision—his mother and father were still living there. He had not seen them since he came to the United States prior to World War I (Hendel and his wife finally did make a trip to Russia in the early 1960s, but by this time both of his parents had died).[15]

The Bogey of Drought

In the early 1930s, drought baked the land, making a "dust bowl" out of whole sections of midwestern and southwestern United States. Well remembered are the troubling pictures of farms with no vegetation, blowing dust encircling everything, the "Okies" heading west in their ramshackle vehicles. The years so indelibly imprinted as "dust bowl" years were 1934 and 1936; history does not as readily recall the "Great Drought of 1930." Yet it was almost as serious.

In the summer of 1930 there was an intense heat wave, coupled with a widespread lack of rain. The Weather Bureau called it "the most severe . . . in the climatological history of the United States." Arkansas was the worst hit, but the central states in the Mississippi and Ohio river valleys were also deeply affected. Rivers were depleted—the Mississippi River (without today's lock and dam system) had become "a comparative trickle"—and by late summer, wells were drying up and farmers were panicking about water for their stock.

Drought relief was imperative. Fortunately, or so it was believed, the country had one of the greatest humanitarian "food relief" managers in the world—its President, Herbert Hoover. Hoover acted quickly, calling a conference of the governors of the afflicted states to establish a relief organization. However, Hoover wanted to minimize the role of the federal government. He chose instead to "mobilize and organize" state and local entities and, particularly, to depend on private agencies.

The Red Cross was asked to take a central role. Already efforts had been made to reduce freight rates for the counties most affected, and the Red Cross attempted to provide intermediate credit for the strapped farmers. But the needs outstripped the resources under this approach. Red Cross efforts to feed the needy were rapidly being overwhelmed. Hoover then asked for a federal appropriation for the Red Cross, but at this point he committed a serious blunder. Rather than directing that the appropriation could be used for all needs, Hoover stipulated that none of the money could be spent for food for the needy, to avoid the appearance of a federally funded "dole." Over the next several months, there was a tremendous political backlash about Hoover's approach. One could use relief funds, for example, to feed rabbits—"Hoover's hogs"—while people were starving.

So the crop year 1930–1931 was a disastrous one in terms of human suffering, and Hoover came in for harsh criticism. David E. Hamilton, a historian of the Hoover period, wrote: "The damage to his reputation was in part the product of his inflexibility, his refusal to admit failure, and his lack of political acumen. His arguments that Red Cross handouts were not charity and that government loans for food were tantamount to a dole made little sense and were wholly unconvincing. . . . His obsession with the supposed benefits of proper organization blinded him to the desperate plight of thousands of Americans."[16] It was especially incongruous in light of his feeding of the hungry in Europe during World War I.

This situation might have helped the agricultural surplus: the drought would cut agricultural production and therefore the oversupply. The drought damaged the corn, the cotton and the hay and to a lesser degree the wheat; but the wheat carryover had actually increased and been supplemented, both by a good United States crop in other regions (the total was 857 million bushels) and by a very good world harvest of 3.8 billion bushels. Even this figure was "ex-Russia" (and the Russian crop was being peddled on world markets in great quantities in this period). Faced with frantic calls for relief measures for stricken farmers, the Farm Board and the Secretary of Agriculture were forced at the same time to deal with deteriorating grain prices and management of a continuing surplus. During the summer of 1930, Farm Board head Alexander Legge and Secretary of Agriculture Arthur Hyde both concluded that only by reduction in grain acreage could the problem be solved.

The two federal executives then decided to take a joint barnstorming trip to the winter wheat belt—what the *Northwestern Miller* irreverently dubbed the "Art an' Alec skit"—personally to push such an acreage reduction program. For six days they traveled throughout Kansas, Nebraska, Colorado, Oklahoma and Texas, in that sweltering summer, to persuade audiences of farmers and reporters of the need to cut production voluntarily. The farmers would have none of this; the well-publicized trip was greeted with widespread hostility at almost every stop.

It was to the advantage of an individual farmer to continue to produce as large a crop as he could on his own land, hoping that "others" would cut production. Then it was called the "free rider" dilemma; today this has been given a more striking term, "the tragedy of the commons." Just as farmers in the early days in England had overgrazed the commons because it was in everyone's individual self-interest to have as many animals as possible there, with subsequent devastation of the grasslands themselves (also a pattern in the 1980s with the Tuareg and other herdsmen of Africa's Sahel), the same thinking doomed the voluntary acreage reduction proposals. Even in the face of drought damage and the small acreage reduction achieved, prices for agricultural commodities, particularly wheat, continued to sag throughout the summer and fall of 1930.

Price declines also threatened rural banks and small businesses as well as many of the cooperatives the Farm Board was dedicated to support. Once again, pressures built for intervention by the Board to "stabilize" prices. On November 15, after obtaining Hoover's personal approval, the Grain Stabilization Corporation (GSC) entered the market once more, just as it had early in the year 1930. George Milnor, its president, strode personally onto the floor of the Chicago Board of Trade to initiate the new move, calculating that the drama of his personal appearance would turn the market—just as Richard Whitney, then president of the New York Stock Exchange, had tried to do back at the time of the stock market crash in October 1929.

Stabilization this time seemed to work—for a time. Milnor had set a goal of keeping the Chicago price of the May future at a minimum of 80 cents a bushel, and for a number of weeks the heavy government buying seemed to produce results. The Farm Board even garnered some accolades from normally hostile farm groups. The success of this stabilization, however, depended on being able to maintain prices over time without exhausting governmental funds in the process.

Since wheat prices started so low, the Farm Board pushed using wheat as feed on farms because of low supplies of alternative feed due to the drought. Some farmers did this, but most of the new crop was stored. The amount of wheat owned by the GSC increased precipitously. Legge wrote Milnor on December 31, chastising the latter because the GSC had bought more than four times the amount that Milnor had earlier estimated; Legge warned him that he was purchasing wheat as if he "were buying a cheap cigar."[17]

Had the Farm Board really divorced American grain prices from those of the world? In the short term, Milnor's efforts had held prices in the range he had set: 80 cents for wheat. However, prices of the May future that was being supported by Milnor in Chicago topped Liverpool by 20 cents and exceeded Winnipeg by almost 24 cents. Normally, Liverpool and Winnipeg prices were 15 to 20 cents higher than Chicago prices. Thus, the world price pattern had been inverted.

John Jr.'s irritation rose some more at what he perceived as continuing timidity on the part of business in speaking out against the Hoover programs. The millers particularly raised his dander. He wrote his father, "I had a long talk with Mr. Franklyn Crosby [of General Mills] on Friday, the gist of which was that the mills do not wish to make any joint representations whatever with the grain trade. It is quite apparent in my estimation that they think the grain trade have a bad name and under no conditions will they allow themselves to be linked with them." Bank presidents also drew his displeasure: "The apathy of our bankers and other leaders in New York in the face of this price-fixing program of Mr. Hoover's is almost unbelievable . . . it will take the actual advent of the calamity which we see in prospect to bring about a general realization of the folly of the present procedures."[18]

John Sr., much more cautious about taking any public position, seemed even more apprehensive about developments. He wrote Morris Barker: "The Farm Board have got into their heads that the failure of their program has been due to the Chamber of Commerce of Minneapolis and the grain trade up here . . . nothing has been done whatever except to make some protests at times on very silly and foolish policies which were self-evidently wrong to begin with . . . the Farm Board has now got into the frame of mind where they . . . are going to smash the grain trade."

By March 1931, the Farm Board was in turmoil. Alexander Legge, "isolated and alone," said Morris Barker, now resigned. Forrest Crissey, Legge's biographer, reported that "his niece . . . felt that his Farm Board experience had broken him physically." Shortly thereafter, two other members of the Board, Charles C. Teague and Samuel McKelvie, announced they would leave the Board in June. Staff members also were defecting. Hoover, upset by this erosion, ordered a full-scale media program "to save the Farm Board." But exhortations were not going to work. Arthur Hyde saw this as yet another example of Hoover's "childlike faith in the efficacy of mere statements." By the end of March, the Board announced in a news release that it was terminating its stabilization efforts and setting in motion the disposition of the huge holdings of the GSC.[19]

Immediately an outcry arose against *any* sale of the grain, prices being so low. Hoover, unwilling to listen to those demanding "impoundment," asked the Board only to set a deliberate policy for the liquidation. It did so, announcing on June 30, 1931, that it would limit its domestic sales over the following 12 months to 5 million bushels a month. The Board also hoped to make special deals with foreign governments, but the United States was not in good graces with its European competitors. Only under great pressure had it attended the International Conference of Wheat Ex-

porting Nations in London in May 1931, where it then rejected a majority plan for a quota system advanced by a group of European countries. At the conference, the United States had pushed hard for acreage reduction, but the other ten nations involved needed their wheat exports to balance their international payments and rejected the proposal. The fact that the United States had just enacted the Smoot-Hawley tariff measures, one of the highest tariffs the country had ever had, further annoyed the export-oriented European allies.

A surprising rumor surfaced in mid-February 1931, that Cargill itself was going to take over the liquidation process for the Farm Board; the story even had appeared in a United Press wire dispatch. John Jr. quickly spiked the story and wrote his father: "I can imagine nothing more unlikely" than Cargill taking such responsibility.[20]

Over the spring of 1931, the Farm Board engaged in a delicate balancing operation. It continued to buy both cash grain and futures, having committed itself to stabilize prices to the end of the old crop. Stabilization measures were *not* to be taken on the 1931 crop. The warehouse situation was tight, and there was hard bargaining between private operators and the Board about the terms of the latter's storage. The Board's ownership of enormous amounts of futures at the Chicago Board of Trade complicated matters. As the date for the termination of the May contract approached, the grain trade once more had a problem of "out of position" grain. If the Farm Board insisted on physical delivery in Chicago, there was going to be substantial transshipment from out-of-the-way points, perhaps even reshipment backward through the normally west-to-east pipeline.

Cargill found itself in the middle of this controversy. While it had tried to reduce its stocks, it still had substantial amounts farther east than Chicago. As John Sr. put it, "Our grain is not out of position with reference to consuming centers. It is merely out of position with reference to Chicago hedges." Fortunately for the private grain trade, the Board took a more conciliatory posture than it had the previous year in the same circumstances and now allowed deliveries at points other than Chicago (in the case of Cargill, at Duluth and Milwaukee). Arguments still arose over the terms, but a new spirit of compromise on the part of the Board led to early resolution. Cargill, too, decided to swallow its antipathy to the Farm Board and conduct its negotiations diplomatically. John Sr. wrote C. V. Essroger, a Chicago bank officer: "The grain trade felt that they should have had 1½¢ per bushel instead of 1¢ per bushel but recognize just the same that Mr. Milnor and Mr. Chilton were trying to look at the problem in a big way and be fair. Personally I feel very much gratified over the outcome."

John Jr., who had conducted Cargill's negotiations personally, wrote the GSC executive in charge: "We are keenly appreciative of the sincerity of your intentions . . . and we are sure you welcome discussion on such points where we believe we have a fair and just contention." He could not resist a final homily: "Incidentally, may I emphasize that we are not seeking any selfish advantage and that we would expect that all others in the same position should have equal treatment."

Thus, the private grain trade dodged the bullet. With the April bargaining turning in their favor, the private companies now came out of the 1930–1931 crop year far better than expected. However, fatal damage had been done to the Farm Board; by the summer of 1931, it was, according to historian David Hamilton, "the most vilified agency of the Federal government since the Freedman's Bureau of the 1860s and 70s."[21]

Two Good Years for Cargill

Despite the effects of the Farm Board action, Cargill's crop year 1929–1930 had been a record one, with profits of over $1.2 million, only the second time in the history of the Company that earnings had exceeded $1 million. But Frank Hixon passed along a warning of C. T. Jaffray that "grain paper is under very severe scrutiny in the east" and that John Sr. should keep the Company "in such a liquid position that your statement would be above criticism." Now the 1930–1931 results were in, and John Sr. exulted to Frank Hixon about a second record year: "We came through this past year with again the best year in our history. Our earnings, after depreciation and federal taxes, were $1,302,469 . . . we have no bills payable to banks and brokers and show cash in banks of $2,037,000 so that I think we will have a very nice looking statement this year."

Indeed, that balance sheet was remarkable in light of the tense period. A zero figure for notes payable was unprecedented, and the low $1.7 million in inventory was comparable to those back in the early 1920s. Total assets had dropped from $17.2 million in 1929 to $7.3 million, about comparable to 1928. It was about as safe a position as a company could be in, particularly taking into account the severity of the depression, which by this time had devastated hundreds of thousands of other American businesses.

Still, there was little euphoria in the industry. World wheat stocks in August 1931 were still 300 to 350 million bushels above normal. Strong bear pressures by the summer of 1931 forced prices to a new low. The average farm price of wheat dropped to about 36 cents in July and then slightly lower in August and September. With federal farm policy already apparently bankrupt, the agricultural outlook was daunting.[22]

The star-crossed Farm Board entered its last-gasp year with vast stocks of grain, and with its dwindling resources there was a temptation to realize

some cash proceeds by selling into the market. That it might do this precipitously worried the grain trade. Secretary of Agriculture Hyde proposed in mid-March 1932 to lend $200 million to foreign governments so that they could buy Farm Board wheat and cotton. But the Hyde proposal never came into being. Later that month, John Jr. wrote: "The truth of the matter, in my opinion, is that the Farm Board are in no shape to resist a declining market and they are throwing overboard whatever long futures they have in all markets." The Farm Board had tried to do the impossible: to take the dual roles of efficient merchandiser and market stabilizer, all to be accomplished in the face of both a greatly increased supply and deteriorating domestic and world economic levels. Postmortem analyses on the Farm Board were in the main highly critical—as were those on Herbert Hoover's efforts during the depression years.

The Birth of Cargill, Incorporated

Perhaps the most important outcome of the Cargill stockholder dissidence in 1925 had been John Sr.'s and Austen Cargill's joint agreement that some method would always be in place to prevent such a factional battle from ever occurring again. Shortly after the 1925 events, they established a voting trust, to last for five years, whereby the controlling family shareholders (the MacMillan and Cargill shares) would be voted as one. On September 1, 1930, this voting trust would expire. John Sr. told Frank Hixon of a new plan: "Austen and I . . . are both agreed that it is highly desirable from the family point of view that we make it impossible to have any possible conflict . . . with a corporation of our character, which borrows such enormous sums of money, we all realized that there should be no fear on the part of the banks of any shifting of the management or control of stock ownership." A new corporation was to be formed to hold the families' common stock in the Cargill Elevator Company, including that held by the Cargill Securities Company. The name chosen was "Cargill, Incorporated," registered as a Delaware corporation on July 18, 1930. Although the final steps in organization did not occur until 1936, Cargill, Incorporated, has continued to today as the parent organization for the Company's many subsidiaries.

The effectiveness of this new corporation as replacement for the expiring five-year voting trust was established by the following steps:

A. All of the shares of the Cargill Elevator Company owned by John MacMillan, Sr., John MacMillan, Jr., Edna MacMillan and Cargill MacMillan, those owned by Austen and Anne Cargill and the shares of Cargill Elevator owned by Cargill Securities Company (a total of 13,379 of the 24,000) were exchanged for common and preferred stock in Cargill, Incorporated. A total of 20,000 shares of this new corporation had been established for each of these two classes of stock, now these 13,379 shares were exchanged for a similar number of common stock shares and also a similar number of preferred stock shares in Cargill, Incorporated (the remaining 6,621 shares remained unissued for the moment).

The rest of the 24,000 shares of Cargill Elevator Company remained in the hands of employees and other close friends of the Company (Frank Hixon, etc.)

B. Voting control of Cargill Elevator Company now was held by Cargill, Incorporated, however, at this time, all the properties and operations remained with the Cargill Elevator Company

Thus, voting control of Cargill, Incorporated, at this time was held by a combination of the various MacMillan shares and the shares of the Cargill Securities Company, 9,617 shares of the total common stock issued of 13,379. Inasmuch as a majority of Cargill Securities Company stock was held by the various MacMillans (as described in Chapter 7), the four MacMillan owners had majority control.

C. Then, on July 13, 1931, Cargill, Incorporated, exchanged all of the outstanding common stock of the Cargill Securities Company, on a pro rata basis (Cargill, Incorporated, exchanging 21 shares of its preferred and 21 shares of its common for each 50 shares of the Cargill Securities Company). Although Cargill Securities stayed in being after this (there were still a number of holdings from the old W. W. Cargill estate—timberland properties in Valier, Montana, in Mexico, etc.), no longer did Cargill Securities as such hold any Cargill Elevator stock.

At this point (July 13, 1931), the four MacMillans (John Sr., John Jr., Edna and Cargill) owned together just over 63 percent of the stock of Cargill, Incorporated. In turn, Cargill, Incorporated, owned a majority of the Cargill Elevator Company.

D. Finally, in successive steps in the early 1930s, several blocks of the Cargill, Incorporated, common stock were put in irrevocable trusts for other members of the two families, particularly to provide the women members of the family with adequate means of support in the event of the death of their husbands.

There remained in place the sizable minority block of common stock of Cargill Elevator Company held by employees (as "employee stock," carrying voting rights but required to be sold back to the Company on death or severance of the employee) and by close friends (also carrying voting rights but having no further restrictions). Just over 10,000 of the total of 24,000 shares were in this group. Other members of the families had some of this; for example, Daniel MacMillan held 750 shares, Mary Barker and her son held almost 400 shares, daughter Margaret Wisner held 194 shares. The largest single holding was that of J. B. Taylor, who held 1,001 shares, with his wife having another 37 shares. Taylor, a more distant relative by marriage on the MacMillan side, was no longer an employee—he had been asked to resign at the time of the stockholder dissidence in 1925.

Employee holdings also were significant. A. M. Prime held the largest amount, 750 shares (his colleague F. W. Lindahl had sold all of his shares back in the early 1920s). Ed Grimes held 500 shares, E. S. Mooers (related to the Cargill family by marriage) held 350, and the amounts ranged down from there to very small holdings—Eileen Lewis, for example, holding 7 shares.

The shareholder structure of Cargill Elevator still remained the same: about one-third to employees and friends and the other two-thirds split

between the MacMillans and the Cargills. The changes noted above, however, had shifted the mix. The concept of a "check and balance" relationship among three groups of holders had not been in effect during the voting trust, nor was it included in the latest arrangement. The MacMillan segment of the family management group held an absolute majority in Cargill, Incorporated, the entity that also held control of the rest of the organization. Emma Hanchette's sale of her Cargill Securities Company stock to John Sr. in 1925 and her exchange of Cargill Elevator common stock for preferred stock in that company in 1927 had made this possible.[23]

Phasing Out the Employee Common Stock

On August 11, 1931, the annual meeting of Cargill Elevator was held, with its main subject the phasing out of employee common stock. John Sr. described at the meeting the reasons for this: "Due to the limited supply of stock available for employees [and] the fact that the dividend rate on the Common Stock was not sufficient to pay the interest on the cost thereof . . . it was practically impossible for any of the younger employees to obtain stock in the Company . . . therefore, the Company was not in a position to reward employees for any brilliant work that might be performed." Further, there was concern that retiring large blocks of stock owned by employees might overly deplete the Company's working capital at a time when the Company was "expanding at a rate which made it advisable to increase working capital as fast as possible."

John Sr. proposed that Cargill Elevator Company issue a 5 percent cumulative second preferred stock, one purpose being "to pay bonuses to those employees that were not common stockholders. In this way, all employees showing particular merit would be included as stockholders." The new plan also allowed an existing employee shareholder to exchange holdings of common stock for the new second preferred stock at book value if the employee so chose, and then he or she would be eligible for the bonus.

To effect this plan, a special meeting of the shareholders was called for August 28, 1931, to amend the Articles of Incorporation to raise the capital stock of the Company to $6 million. The capital structure would be (1) 32,000 shares of common stock, (2) 8,000 shares of preferred stock and (3) 20,000 shares of the new second preferred stock. The preferred stock would still remain senior to the new issue and would still have its fixed annual dividend of 7 percent; the second preferred stock would carry a fixed annual dividend of 5 percent. Neither of the preferred issues had voting rights.

The plan was discussed openly in a lengthy article in *Cargill News*, the new employee publication started in July 1930. There was special focus on the merit feature. Employees already owning common stock and who

elected to retain it were reminded that they would *not* be entitled to receive a bonus. The bonus itself would not depend on the level of management, either. Younger men, said the editor, "who expect to go ahead with the Company" should exchange their stock for the new preferred.

A personal memorandum in John Sr.'s files stressed the stock bonus feature, adding, "Cash bonuses are bad." John Sr. expanded on this in a letter to Frank Hixon: "Years ago . . . we found that that did not work out well. Each employee immediately assumed that it was a permanent increase in pay, and when conditions in his department shifted and he could not make a big showing he still expected a large bonus regardless of the outcome. In addition, we found it created a great deal of jealousy among the employees."

Thus, the plan held out a carrot—a bonus for merit, payable in the new preferred stock. Built into this was an encouragement to convert—employees could get bonuses too if they exchanged. It seemed at this time to be perfectly agreeable if they did not convert. Indeed, when J. B. Taylor, who resigned in 1925 (after the squabble over ownership), requested to transfer his common stock to the new preferred, he was denied. The plan apparently contemplated the transfer only of employee stock, not stock of outsiders (like Frank Hixon and Taylor).

In the first year, some 2,578 shares of employee stock, with book value of $601,000, had been retired: $463,000 paid in second preferred stock and $138,000 in cash. The number of common shareholders continued to drop over the succeeding years. At a subsequent point, John Jr. put increasing pressure on the common shareholders to make the exchange, a point to be discussed in detail later.[24]

Training Younger Management

An organization's stability and growth over time depend fundamentally on having continuing good leadership. Fresh younger executives must always be available to replace older managers lest the organization deteriorate. In its earlier years, Cargill's management development had been hit-or-miss. The Company's positive experience over the years was in part a testimony to the judgment of its management, in part sheer luck. As Cargill Elevator Company headed into the 1930s, its management team was excellent but certainly not altogether preplanned. At this point, a more self-conscious approach was adopted with establishment of the Cargill Training Program. Since then, this has been one of the unique hallmarks of Cargill. Were Cargillites asked today what has made the Company successful, the training program likely would be high in the responses.

The program was born in part out of a negative experience. In late 1929, John Jr. and Harold Tweeden, the Buffalo manager, were negotiating to

lease terminal space at Oswego, New York They hired an outsider for on-the-spot negotiations; when he reported failure, Tweeden suggested that the man be sent to the Cleveland office for another assignment. John Jr. wrote his father what then happened: "We discovered that he had left the Leamington without paying his bill or checking out. An investigation showed that he was thoroly [*sic*] irresponsible . . . we called him on the telephone before he reached Cleveland and discharged him " This made a profound impression on John Jr.; he continued. "Our first loss is the smallest. . . . This has left me with a conviction that only in most extreme cases do we ever want to go outside our own organization in filling positions."

This experience led to a conscious decision to carefully screen and hire young college graduates, mostly agriculture or business majors, and then train them in a new Cargill-managed training program where Cargill values, principles and tactics would be taught. The driving force for the training program right from the start was Julius Hendel. In the summer of 1930, Hendel set up a formal evening training program, conducted by himself, with his own curriculum based on his extensive practical experience in the commodity markets, and backed by his lengthy academic training in the same fields. Soon Julius's "boys" were sitting at the foot of the teacher in the classroom—one can almost hear him say "my boys" in his Russian accent, for this is one of the great memories of Julius. The classes met every Tuesday and Thursday evening, with a well-directed focus on the grain business.

The first year's class was a small one; the record is not clear how they were picked or whether the class comprised only new college-graduate trainees. By the time of the second class in 1931, the size had greatly expanded; *Cargill News* called it "an opportunity that one cannot afford to miss. . . These classes are open to all in the organization and are not just confined to any particular group." By this time, Tom Totushek, earlier Hendel's assistant in the grain laboratory, took responsibility for the liaison between the trainee's newly assigned department and the classroom preparation just finished "Tommy . . . helped Julius in his kindergarten," John Jr. commented.

In the summer of 1931, Hendel developed a more advanced class for those trainees having particular promise. Often this latter group met at Julius's large farm home near Lake Minnetonka. At other times both the basic group and the advanced group met at the Cargill headquarters in the Grain Exchange building The room that was used had some rather ornate decorations on the walls, of gold color—perhaps this was the origin of the term "Gold Room boys." Later, as this term became widely used in the Company (often enviously) as a sobriquet for the college-graduate trainees, the connotation was more invidious, sometimes seeming to imply the "gold spoon in the mouth." When management became more selective in

choosing candidates, that "Gold Room boys" term began to carry a certain implication of elitism, and those not chosen for the role (for example, those without a college degree) more than occasionally expressed envy about the small favored group.

Hendel alternated his own teaching sessions with those of others in the Company, including the trainees themselves. In December 1931, John Jr. took the subject of cotton and "gave a very interesting talk on the raising, handling and marketing of this valuable crop." Several trainees also made presentations that evening, and later that month there were sessions on sugar and molasses. Wallace W. Hyde and James W. Ringwald, both trainees in the first class in 1930, had their presentations, "Why the Price of Wheat Is So Low" and "Development of Western Canada," published in a subsequent issue of the *Cargill News*. Several of the Cargill senior executives taking particular sessions put their speeches in *Cargill News*, too, including Donald L. Williams, who gave a paper on the exporting of grain, and Frank Neilson who conducted several sessions Trainees in those first few years included names that subsequently became famous in the Company—Ralph G. Golseth, Fred Seed, Erwin E. (Erv) Kelm and others. So, from the start of John Jr 's ascendancy, the Cargill training program produced an outstanding group of young college graduates for management roles in the Company.

Recruiting Biases

Maurice R. Smith, a college friend, wrote John Jr. in January 1934: "I have been telling a friend of mine of the success you have had in employing young college men in the top 10% test bracket, and he wants to start infiltrating a few such men in his organization." Smith solicited John Jr.'s views; he responded articulately on the underlying philosophy of Cargill's approach:

> We get our men from the various Bureaus of Appointments of the different universities So far we have had the best cooperation from our own university here, although I have secured a few men from Stu Clement [the placement officer] at Yale, with only indifferent success however . . the men at Yale who have to work their way through are no better than the same type at any other university, and we have placed so many men from the local university that their cooperation has been excellent
>
> We have a committee of executives who pass on these men and our rule is that the committee must be unanimous in its choice. We pay more attention to our own impressions than to the records, but we restrict our choices to men whom we consider to be in the top 5% or 10% as far as intelligence goes.
>
> Scholastic standing, we find, means very little, but if the scholastic standing is poor there must be a reason for it, such as extra-curriculum activities . . . the Binet tests are of substantial help, not necessarily as a guide to good men but to assist us

in rejecting the slow ones who might otherwise get by on account of unusually fine presence.[25]

With John Jr.'s and Cargill MacMillan's Ivy League background, it was natural that graduates from Yale and some of the other schools in that group would seek Cargill posts. Early on, Cargill did take a Yale man, Almon Greenman, with success, but John Jr. began to build a prejudice against the Yale graduates, feeling that most of them came from family fortunes and eventually would return to the family businesses. In 1936, John Jr. wrote Stuart H. Clement at Yale: "Quite frankly our experience with Yale men has been so unsatisfactory that unless some outstanding man comes to our attention we think it would be better not to try them for a while at least. We have tried approximately six Yale men since I have been in the business, and of the six only one has worked out [Greenman]. . . . The only thing that occurs to me is that we are unable to hire the type of men that made Yale famous." Perhaps John Jr. was enough of a snob to feel that those who had to work their way through Yale were not quite of his caliber. Clement wrote back: "I have no explanation to offer beyond the fact that the salary which you pay to college graduates during the first year or two is considerably below the market and undoubtedly has some bearing on the situation."

John Jr. was espousing here his thoroughgoing belief in meritocracy. A first requisite for this merit was the achievement of a college degree. Further, these people would likely come from families of breeding. In a speech to a senior management group in May 1946, he stressed three points as being paramount in picking managers. The first of these was stated as follows: "As far as possible draw your executive talent from men of good background. Avoid the diamond in the rough type and men who have a chip on their shoulders." (The second point emphasized patience in finding the right person; the third related to the ability to delegate.)

Yet John Jr. was strongly opposed to hiring relatives of business friends. At one point, Ed Grimes had thought it might be wise for Cargill to hire the son of a business connection. John Jr. rejected this notion: "We have had one or two conspicuously successful cases of hiring sons of our friends in business life—the most recent one I can think of is Juneau [Herbert Juneau, one of the trainees in the first program] and . . . we have few men in the organization any better. However, unless you think that the son would compare favorably with the other college graduates we are hiring for executive positions, I would prefer very much not to take him. I also think you might incur ill will if we had the boy make an application and then did not take him."

There was not unanimity within the Company about the focus on college graduates, however. Few of the older employees, even those in top management, had come to Cargill with a college diploma; many of them vehemently believed that the "school of experience" was the best preparation for the grain trade, indeed, that a college degree often gave people "airs" that got in the way of being a successful employee. Frank Neilson, for one, was vocal in his opposition, at one point telling a young man who was working in the Terminal Department part-time and going to college that he (Neilson) "wanted no college boys in my organization—I'm a self made man, and that's what I want. College people expect too much." The young man wanted a job with Neilson badly and actually gave up further college education to obtain the job. Perhaps this was a partial explanation for Neilson's antagonism toward Julius Hendel, Hendel holding not only an undergraduate degree but a doctorate as well.

For recruitment, Cargill gravitated toward the midwestern universities, focusing particularly on the University of Minnesota. This and other constraints tended to cast the net somewhat narrowly. John Jr., for example, had a strong aversion to graduate business school candidates. On the plus side, the Company gained a cadre over the years of tractable young management men whom the management knew very well and whose subsequent performance with Cargill was often outstanding.

There were risks in such a narrow focus to recruiting and promotion. The same type of person and thinking was replicated over and over. The rubbing together of disparate personalities often was lacking in a selection process that concentrated on one subset. Cargill's strong promotion-from-within policy produced highly loyal people, well trained in the individual corporate culture and methods, however, there was the risk of too much similarity with too little shaking of the conventional wisdoms. Later events would put this dilemma in sharper focus.

John Jr. was fiercely protective about his cadre of younger executives and seemed to resent personally any defections. In this period, one of the Company's arch competitors, Bunge North American Grain Corporation, persuaded a Cargill buyer to come with them. John Jr. wrote the Bunge president a blunt letter:

> In view of the well established custom in American business to the effect that an employee of a friendly business organization is never hired away without first discussing the matter with his employer, you can well imagine our astonishment at being informed by one of our buyers that he was leaving us to accept a position with your office here. Inasmuch as none of us had any recollection of any discussion of this matter either with you or any of your associates it is very difficult indeed for us to construe this as other than an evidence of extreme unfriendliness.

The Bunge president took umbrage at this; he delegated the response to a vice president, and the latter's reply was curt: the Cargill employee concerned had approached Bunge "several times," and "we felt that the young man was dissatisfied." There the matter rested.[26]

With the new training program in place, the Company then decided to make a public statement of its overall personnel policy, choosing a memorandum for the banking community in February 1933 as the medium:

> The Company has been expanding vigorously but along conservative lines and has adopted a policy of promotion entirely from within, which makes necessary the hiring of a small group of high grade men each year. The men so selected are put through a rigorous training course, which could only be compared with a Post Graduate college course. . . . The salaries paid are very low for the first three years. After that they average materially higher than is ordinarily the case under similar conditions. Promotion is entirely by capacity and not by seniority, with a result that many of the highest paid executives are very young men. In exceptional cases, salaries as high as $300 and $400 per month are earned after the third or fourth year. . . . The wide scope of the Company's activities make it possible to find places for almost all types with a single exception that a very high level of intelligence is necessary in the first place, as the business changes with kaleidoscopic rapidity and it requires considerable mental agility to be able to adapt one's self to the changes.

The last sentence of the memorandum singled out Yale with an interesting, rather gratuitous statement: "Our greatest objection to Yale men in the past has been that they become discouraged just about the time that they have acquired enough knowledge to place them in directly executive positions."

Later, John Jr. mellowed about Yale. In 1946, when his eldest son, John Hugh III, was preparing to go to an eastern preparatory school, John Jr. wrote an official there: "I have a marked preference for his going to Yale, largely because of the intense competitive spirit which is peculiarly developed at Yale. My reason for this is that we have a fairly large family-owned business and one in which we hire each year about a dozen university graduates who compete among themselves for our higher executive positions. Naturally we cannot play favorites and I am extremely anxious to have [him] enter our business imbued with this competitive spirit, which is all too often lacking in small universities."[27]

Tightening Cargill Centralization

Two events in early 1931 combined with John Jr.'s increasing management role to bring a significant restructuring of the Cargill organization. The first came out of a tragedy. On February 27, Julius Hendel was involved in a terrible train crash, when the crack Milwaukee Railroad "Olympian" ran into a Minneapolis-bound Omaha mail train near Camp Douglas, Wisconsin. He received a severe blow to the head that threatened complications (he began running a fever after returning to Minneapolis). Fortunately, he recovered quickly, but it was a sobering event for the Company. "Julius . . . really has very few competent assistants on merchandising right now," John Jr. wrote his father afterward; Hendel truly was an indispensable member of the organization.

Another seemingly isolated event occurred two months later. Julius Hendel and Ed Grimes had had several heated arguments over a shipment of corn. John Sr., learning of the rift, wrote an angry letter to both, one of the harshest in all of his extant correspondence: "I am greatly annoyed and displeased to find that there is friction between you over a sale of corn. I cannot have anything but the best of team-work between departments and I must insist that you each treat with the other from the point of view of what is best for the business as a whole. If you cannot work this problem out between yourselves I shall have to take charge of it in person, and in this case I will take over all of the handling of corn thru the Buffalo office for the balance of the crop." After detailing exactly the way he wanted the corn to be handled, John Sr. concluded: "Any disturbance of this kind affects the morale of the entire organization . . . I want you again to try to get together in the spirit of what is best for the organization as a whole and work out between you how you can get on without any friction in the future." His concluding sentence minced no words: "I want it distinctly understood that if at any time there is any point on which you cannot agree that it must be referred to me for settlement."

The Hendel–Grimes disagreement apparently signaled to John Sr. that further central control was needed. In July 1931, he wrote Frederick Lindahl at Duluth about his decision to centralize the handling of rye out of the Minneapolis office (Lindahl had earlier lost the Wheat Account). "We will be governed accordingly," Lindahl plaintively responded, but it was clear that those halcyon days of earlier years when Lindahl's operations were at the center of the Company were over.

Just a couple of months later, in August 1931, centralization was again tightened. The instance involved Lewis Crosby, the new head of the Omaha operations. John Sr. wrote to him: "I have just learned accidentally that you were buying wheat and offering it on the outside. Under no circumstances whatever are you to do any wheat merchandising. Any wheat of any character to be handled at Omaha must be for the Wheat Account . . . you cannot possibly understand all the factors in the situation and they must come through this office" (the Wheat Account was handled by John Jr. and Hendel). John Sr. must have felt he was too abrupt, for he added, "I do not want you to think that we do not want you to be looking around for every opportunity. What I am trying to impress upon you is that if we are trying to do the same thing from two or three different directions, we are in each other's way."

Another memorandum from John Sr. at this time, in this case to a dozen of the management in Minneapolis, spoke to the same desire for control: "On numerous occasions petitions are circulated on the floor asking for

Cargill Terminal Elevator Superintendents' Convention, December 1930. Standing, left to right, Julius Hendel, Cargill MacMillan, Elmer Grant, P. G. Oszusick, George Carlson, Marcus Marshall, Frank Neilson; seated, Lew Crosby, Adolph Swendson, Ed McManus, L. N. Cote, C. R. Reed.

signatures. Hereafter I wish you would always refuse to sign any petitions until the matter has been referred to me, as you might be interfering with some business policy of the company by so signing."

A few months later, in early 1932, another health problem intruded, and this time it was a major one. The tensions surrounding the Farm Board problem had sapped John Sr.'s strength ("I am tired out," he wrote Morris Barker). Never the healthiest of people, John Sr. now suffered a serious heart attack. Although it was not life-threatening, the doctors prescribed a long rest, and he was not in the office again until May 1932. Despite telling John Jr. and Cargill that he was "cured," he adopted a restricted regimen at the office from that time forward.[28]

John Jr., General Manager

While John Sr. was recovering from his heart attack in California, John Jr. wrote a long letter to him about restructuring the organization. C. C. Boden, who had been the Company's first resident representative abroad (assigned to Rotterdam, Holland, in 1930 and then to London in 1932), returned to the United States. John Jr. first thought to bring him to Minneapolis, to supervise all exports, including purchases in the West that were

moving down the Lakes to be "fobbed" at the seaboard, but then decided to assign him instead to New York City, with some but not all of the export responsibility. The remainder would be held by Don Williams, who already was head of the export department in Minneapolis. There was also the possibility of moving Harley Flood to Minneapolis: "We always considered that Harley was available to relieve Mr. Lindahl in case of need, but we are moving so many of the functions of the Duluth office to Minneapolis that we really do not need as high grade a man as Harley in Duluth, particularly as we plan to handle all lake charters from now on here in Minneapolis rather than in Duluth." Flood spent only a few months in Minneapolis, then was transferred to the newly expanded Winnipeg office. The reassignments of both Boden and Flood resulted in more direct control by John Jr.

In July 1931, another step toward centralization was taken when T. R. Shaw, the editor of the *Cargill News*, was also given responsibility for coordinating all Company advertising. The next month, the Company stenographers were asked to regularize their handling of the mail; in an unintended slip, the authors of the memorandum (H. B. Juneau and Eileen Lewis) ended the sentence about the letters with "after they have been signed by the dictator."

Economic depressions often bring opportunities for innovation, provided resources are available, factor costs generally being lower than normal. Cargill did take advantage of the times to build, buy and lease new terminals, many of striking configuration. Feed costs were at that time very low, and in 1931, the Company received several suggestions from the outside about entering the feed business. But generally speaking, the more highly centralized a company is, the less likely it is to search for new patterns of diversification. This was true of Cargill; Ed Grimes mirrored Company thinking in his reply to a Chicago feed operator: "Several times we have considered the advisability of going into the feed business . . . each time we have decided that we would confine our operations entirely to grain, and I do not see anything new in the situation to cause us to change that policy." A molasses project also was considered—Cargill would trade molasses, itself arranging the transportation in special rail cars. Nothing came of that idea, however.

In July 1932, another move toward centralization was made, in this case one of great importance. Responsibility for the marketing operations of all of the terminal departments in the western operations (those of Minneapolis, Duluth, Omaha and Milwaukee) were consolidated under John Jr. and Julius Hendel, with F. J. Hays as their assistant in charge of accounting. This put even greater focus on the functional distinctions that John Jr. had brought to the company from his experience as an army officer in World War I. For the huge terminals in the West, Julius Hendel was

now to be the functional head for all of their marketing. But the management of the terminals themselves was under Frank Neilson, who had been appointed superintendent of the warehouse companies.

Even under the best of circumstances, such a sharp functional split within the confines of such a crucial physical property would be difficult. As it was, there already was considerable acrimony between Julius Hendel and Frank Neilson, ill feeling that had continued to grow over the years Indeed, during the time that Neilson was head of the terminal elevator operations, orders had gone out from him that Julius Hendel was not to be allowed in the terminals proper Even if Hendel and Neilson had worked compatibly, the narrow functional bifurcation at these locations would have been difficult to manage; the personal tensions exacerbated the problem

In these Hendel–Grimes and Hendel–Neilson spats, the correspondence points to Hendel as the more contentious Given John Sr 's instinct for compatibility in the organization, one could wonder how Hendel fit in. However, Hendel was John Jr.'s protégé and colleague, and the two got along very well, having many similar attributes Further, Hendel's acuity in trading had made Cargill much money in this period.

In July 1933, John Jr added to Frank Neilson's duties, making him the head of a new "personnel department " John Jr. sent a memorandum to all executives in the company, noting that "there has not been complete coordination in the past between the various departments in the hiring and discharging of employees " Neilson's office was to be used as "a clearing house," and the arrangement was to apply to all employees except the country line elevator agents.

Harold Tweeden, being groomed as a top management prospect, was put in charge of all domestic sales in the East, which included the Toledo, Montreal, Buffalo and New York offices. John Sr. sent a memorandum to the four office managers affected, confirming this, but added an inexplicable, ambiguous caveat: "Any time you feel that you are not getting full cooperation with him please take the matter up direct with us here in Minneapolis "

Just a year before, in late May 1931, John Sr. had severely chastised Tweeden over a difference the latter had had with Hendel over intracompany pricing of corn: "[The] basis you mention I do not feel is fact . . . corn is worth more than that. I put this up to you expecting you to be fair but apparently I have to make these decisions myself and I do not like that kind of business. One department cannot figure to make its profit at the expense of another. It is the welfare of the entire business I want considered above all "

Tweeden was disconcerted by some of the centralizing changes and by John Sr 's memorandum. John Jr. wrote him early in May 1932: "Ed tells

me that you are very much perturbed lest the changes in administration which we are making might result in making it impossible for you to make the showing to which you are fairly entitled, and I am just writing to reassure you on this very point." John Jr. noted that the new centralizing would "result in a very heavy saving in overhead" but pointed out that "there should be no curtailment of initiative anywhere as a result." He spoke specifically of Tweeden's role: "In your case we are really in a quandary, as we would like to have you here in Minneapolis . . . but in order to do so we would have to sacrifice the local knowledge which you have, together with such standing and prestige as you have acquired in the East as a result of your long residence there."

Then John Jr. tried to spell out a rather perplexing reporting relationship. "We are going to try to continue just as we have in the past except that for administrative reasons we will have to carry all merchandising records here in Minneapolis and have your own activities come in the form of recommendations and advice to the merchandising staff here." Tweeden would still get credit for all of the trades done out of the Eastern offices, but the real control was now vested in Minneapolis.

Tweeden seemed destined for higher responsibilities at a later point, but then a tragic development cut short his career. After an illness of months, he died in July 1933. Once more, the result was a move toward further centralization; the major responsibilities that Tweeden had held were assumed by the Minneapolis office.

These developments came about during John Sr.'s recuperation from his heart attack Now came the final result. In August 1932, the board of directors of the Company elected John Jr as its new general manager. An article in the *Cargill News* made it clear that the change was a fundamental one: "We are all very sorry to see this part of the work drop from the hands of our President, but are pleased to know that he can be relieved from some of his many duties. Mr. MacMillan has always managed the affairs of the Company in a most efficient manner and has successfully brought it through many depressions and trying business periods. His thoughtful kindness and interest in the welfare of his employees is one of his great characteristics that has endeared him to us all and brought forth the highest loyalty of everyone to himself and the company " The article continued about "his sterling qualities" and pointed out that John Sr. "will continue to have our loyal support and the company will still have his guiding influence." In a poignantly characteristic swan song, John Sr. sent a long memorandum on September 7, 1932, to "all executives" on the continuing need for "absolute secrecy," lest information be divulged "detrimental to our interests." Privacy had dominated John Sr.'s thinking for many years—as it had for all of the grain trade. By the very nature of trading, where bargaining strategies were kept guarded, where timing (often almost in-

stantaneous timing) mattered a great deal, where margins were so slim, where one's private knowledge of fresh information could be invaluable, privacy became ingrained. It was the competitor that dominated each company's thinking. It was the competitor that might steal an innovation. The grain trade companies worried about government, were concerned about what farmers thought of them—indeed, what the general public believed about the industry. They read their press accounts assiduously. The same undoubtedly could be said for almost all industries. But for grain traders it was always the competition that preoccupied them. The frenzy of the trading pit truly symbolized the industry; secrecy was its watchword. The fact that most of the industry's companies were closely held was instrumental in making this possible.

John Sr. truly felt he was the watchdog on maintaining secrecy, and he would continue to play this role. But it was crystal clear that John Jr. was now running the Company.

The organization already had been sharply restructured by John Jr. over the years that he had been involved with his father in the management. His changes back in 1925 had been the trigger for the stockholder and employee dissidence at that time. Nevertheless, these changes had endured, and John Jr. had built the Wheat Department and then the entire grain operation into a dynamic unit, centralized in his and Hendel's hands. He also had put his mark on accounting and office procedures, had restructured the transportation functions of the Company and had taken a central role with Neilson in the construction of new terminals. By the time he became general manager, the organization already had been shaped largely in the image of John Jr.'s concept of management.[29]

Strub, Iowa

CHAPTER TEN

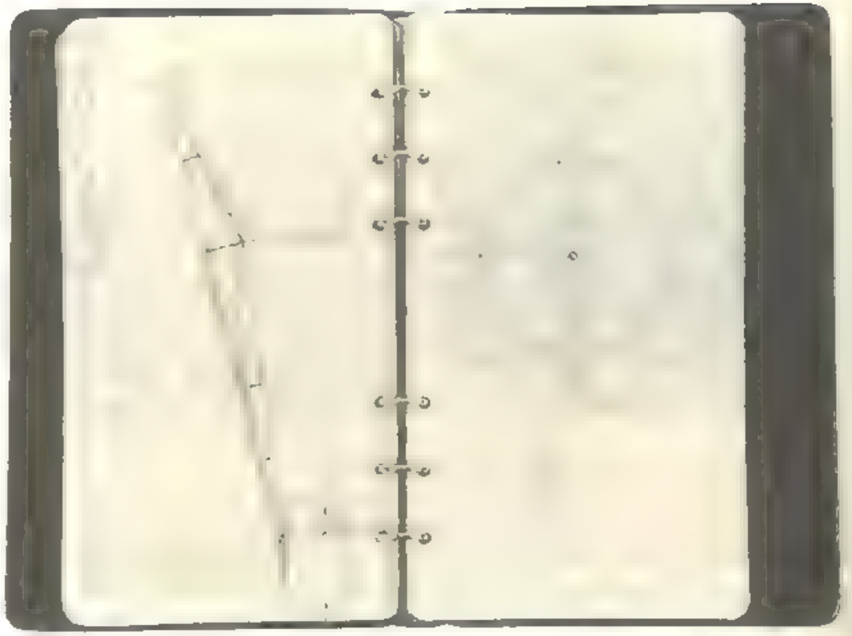
New Elevators, Cargill's Bank Crisis

From far back in its history, Cargill had dealt with commission merchants. Yet there were problems in this. Loyalties of commission merchant were not as strong as those of Cargill's own employees, whose devotion to the Company was by now legendary.

Omaha, a feeder city for the Company's Duluth terminals, was a case in point. Commission merchants had been used there since the early and mid-1920s, and the arrangement was not working well. John Jr. described the difficulties: "We were unable to buy grain of reasonable quality for ourselves. . . . The elevators in Omaha gave us wheat which made grade under federal standards and yet was not warehouseable grain. We . . . needed [to] select our own grain." So an office was opened there in 1927; Lewis L. Crosby was posted there as the buyer.

Soon John Jr., so immersed by this time in wheat trading, began to consider an actual terminal in Omaha. Heightened volume alone could have justified it, but tactical reasons made it even more desirable. There was a natural west-to-east movement of grain, from growers to users, and a heightening movement from Kansas and its neighbors to Gulf ports. It would be a safeguard to be able to store substantial amounts of grain at the beginning of this pipeline; places like Omaha or Sioux City, Iowa, would be natural collection points. By late 1929, John Jr. began to look for sites, aided by Frank L. Neilson, his colleague from the British Columbia logging days.

By March 1930, Omaha had emerged as the best site. John Jr.'s and Neilson's choice was a piece of land outside the Omaha–Council Bluffs switching district. When they asked the Omaha Grain Exchange to allow this to be an "Omaha terminal," the Exchange officials initially said no; they would allow a terminal only in Omaha proper. John Jr., a consummate bargainer, played his hand strongly and won out: "As soon as Mr. Fenton said we would then go to Sioux City, they showed signs of weakening."



Early sketch by John MacMillan, Jr., for Cargill's proposed Omaha terminal elevator, c. 1929, showing a circular configuration.

Building the Omaha terminal elevator, July 7, 1930.

Omaha grain car dumper unloading the first car of grain, August 1930.

This Omaha bargaining in late 1929 and early 1930 coincided with the most unsettled period in Farm Board policy. With storage at a premium in the Omaha area, John Jr. felt he could use the potential new Cargill terminal as a bargaining wedge with the Farm Board to encourage them to reverse some of their unpalatable positions. So he wrote Alexander Legge a long letter on March 1, 1930 about his new elevator plan -that it

would be a 5½-million-bushel elevator that "would be a material factor in relieving the pressure of new crop winter wheat." Then he outlined his opposition to the Farm Board policies concerning the May futures contract, and ended: "Unless the Farm Board reverses its policy and restores the carrying charge from May to July, or unless we have assurances from your Board that it is not the policy of the Farm Board to manipulate futures with such a result in view," Cargill would not proceed.

The heavy hand did not work here—John Jr. had overestimated his clout. Legge penned a terse letter in response: "I cannot advise you as to the building of storage beyond saying that it is quite evident that more storage is needed in that section of the country, and we certainly hope the present abnormal conditions will prove to be of short duration."[1]

The terminal still was needed, of course, so John Jr. swallowed his pride and proceeded forthwith on construction. On May 24, 1930, the Fegles Construction Company broke ground with an amazing promise that they were, in the words of the *Cargill News*, "to have the structure ready in time to take care of the new crop." It was a challenging task inasmuch as it was to be a 5-million-bushel terminal and a highly innovative new configuration.

John Jr. and Neilson proceeded on two basic premises, that large bins were cheaper per bushel than small ones and that the plant would be arranged so that only one operation could be performed at a time, but at high speed. At track-side was an elevator workhouse with attached car shed; an enormous Richardson rail car unloader was located there. The rail car was lifted up in its entirety, turned sideways, then moved up and down so that the grain was unloaded in a very short time. Cleaning the car took "less than four minutes from the time it is placed in the dumper, and . . . the car dumper could handle ten cars an hour, or some 200 to 240 cars per day."

The storage area had a set of storage tanks in two lines built as a cross. On one axis, straight from the workhouse, there were five 90-foot concrete storage tanks, open at the top. On the other axis were a set of four tanks on each side, scaled down in size to the two on the outside at a height of 30 feet. The outer points in each direction were completed as a square; the exterior walls, consisting of numerous small semicircular tanks, were 30 feet high. The large open areas in the four quadrants then became Bins A, B, C and D, each able to store—in flat storage—1 million bushels. The suspended corrugated-sheet-iron roof that enclosed the whole structure sloped down from the north-south roofline, starting at a point just over the 90-foot tank tops. From the outside, the whole structure looked like an enormous rectangular circus tent.

John Jr. produced a practical design for the precise angle of this roof configuration. His intricate calculations balanced all of the engineering

concerns (stress, weight, etc.) and calculated the angle of repose to allow grain to be stored right up into the very top of the V-shaped inside angle but also to flow readily out from that high corner when needed for loading out. Unfortunately, John Jr.'s mathematics for this did not quite work; the grain peak in the high corner would stick, and several Cargill old-timers recall having to climb up on top of the grain, supporting themselves on long 2-by-10-foot planks laid on top of the grain, to dislodge the grain at the top.

The construction company had kept hundreds of men busy working night and day without relief, and the entire structure was completed in under 55 days. Indeed, on July 16 ("at 1:30 p.m.") the first carload of grain was taken into the elevator, just over six weeks from the time the whole project had started. The construction itself was a tour de force. The total cost was estimated by John Jr. (in a letter to Frank Hixon) at just about $500,000; with the total capacity of 5 million bushels, this was a cost of about 10 cents a bushel. At that time, it cost up to $1.50 per bushel to build conventional elevators. The Omaha terminal, John Jr. told Hixon, "is of the cheapest possible fireproof construction."

It was not just the outside appearance, with its strange suspended-roof topping, that was unique. Inside, in the four enormous open flat-storage areas, Frank Neilson had devised a grain-moving device that had never been tried before in such circumstances. Given that the grain in these four "bins" was really just dumped in huge piles of flat storage, the key question became how to move it to the floor conveyors. Presumably one could use bulldozers with either front-loaders or scrapers, but the required back-and-forth travel seemed to Neilson to be inefficient. So Neilson and his colleagues developed a new "secret," a shovel machine run from afar by a man on the high gallery overlooking the bins. A scoop shaped like the peel of a quarter-orange was developed. Made of steel, the gadget stood just higher than a man's waist. Cables were attached to it from fasteners located all along the wall, and the operator could set the pulling cables into a particular set of fasteners that activated the scoop in a certain path along the floor. Resetting the cables into other fasteners would change the path, and a skilled operator could so reposition the cables that the huge pile could be cut away in safety and with speed.

The flat-storage arrangement of this Omaha terminal was so different as to raise problems of nomenclature. The four large flat-storage areas began to be called vats by Company employees, but this violated John Sr.'s sense of order, and he wrote a sharp note to John Jr., Neilson, Crosby, Julius Hendel and F. J. Hays: "I notice that those having to do with the handling of grain in the Omaha elevator refer to the large bins as 'vats.' I want this practice stopped. Have these bins called 'bins' and you can differentiate if necessary by using letters for the large units and numbers for the small

units. Will you please give the necessary instructions to your subordinates so that hereafter these units will be called 'bins.' " Subsequently, this Omaha configuration and others like it later became known as the "big bin" approach, and John Jr. and others (but not everyone) at Cargill became great boosters. John Jr. was particularly enamored of the "big bin" cost savings and enjoyed pointing out the huge expanse of surfaces (with attendant wear) that 100 bins of 10,000 bushels would have against a single bin of 1 million bushels.

There were concerns about the Omaha terminal. First, the concept of flat storage itself was controversial within the Company and the industry. There were substantial handling costs associated with this type of storage,to be balanced against the inexpensive fixed costs of the construction. Further, an inspector from the Nebraska Inspection Bureau was concerned about the lack of venting of the bins and the suspended dust in the air above the open storage tanks, which "can be removed only by a natural ventilation." Bert Lang, John Jr.'s bank officer friend in St. Louis, queried him in late September 1930 about turning the grain in the large bins for ventilation: "Naturally my grain man's mind runs to the thought of how this house could be safely operated in a year of high moisture content . . how you would be able to detect a warm spot in these bins before it has progressed to a point that involved a large percentage of the contents."

John Jr. assured Lang that there was no problem, that Neilson had developed a new type of long probe In another letter to Lang, John Jr added, "We are more than delighted with the economy of the plant, as it is by all odds the most economical in operation of any grain elevator that we know anything about . . in fact, some of our most practical men prefer this type of storage from results shown to date " Both John Sr. and John Jr. were extremely proud of their Omaha operation. They made a joint visit there in mid-August, and John Sr. wrote Cargill MacMillan "Junior and I had a wonderful day in Omaha . . . the new elevator is working perfectly." The rapid construction and the unique appearance made the terminal a tourist site in Omaha.

Many people asked for a closer look, but John Sr. wrote Lewis Crosby, the manager: "Under no circumstances do we want anyone taken thru our elevator at Omaha without instructions from this office . . . we want them shown only the ground floor of the workhouse, including the operation of the car dump. . . . Under no circumstances is anyone to be allowed to see our bin plan, and we are instructing Mr. Neilson to see that there is a door with a lock provided for each one of these so no one entering these offices casually can see the plant." The Omaha terminal was a truly proprietary Cargill innovation—and to be protected! A number of Cargill men later to become senior management trained in this innovative terminal, among them Roy Gretzer and Ed McCoy.[2]

In the summer of 1931, the Omaha terminal was doubled in size to a 10-million-bushel capacity by finishing the roof and tanks on the other side as a duplicate of the first. The total construction cost for this huge terminal was astoundingly low by industry standards; John Jr., in a later memorandum to the Russian government, estimated the total cost at $1,050,000 approximately $600,000 for the first unit of 5 million bushels (which included the workhouse) and $300,000 for the second 5- million-bushel unit, with another $150,000 for cleaning tanks. Thus, the total cost of the operation, assuming these were accurate figures, was just 10½ cents per bushel.

At a later point, after John Jr had built other versions of this terminal, a rail president queried him, wondering if the railroad could use such a building for grain storage. John Jr. answered, "In practice we are able to secure approximately four times as much for the same expenditure as with conventional design." He did not encourage the rail president, however; John Jr. truly felt that only Cargill knew the special ways of such an unconventional elevator: "If you should decide to go ahead with additional elevator construction we would be glad to talk with you further about our type of structure, although as I told you the other evening, it is very doubtful if this type could be used by any firm other than ourselves."[3]

Farm Board Fallout

The intrusions into the cash and futures markets by the Farm Board now encouraged some further Cargill changes. The Omaha terminal would have the immediate effect of keeping more grain at the western end of the west-to-east marketing movement. The Milwaukee Railroad now built 1.7 million bushels of new capacity in Milwaukee and leased it to Cargill. Beyond this, a major new addition to Elevator T in Minneapolis accommodated 2 million more bushels.

There were storage changes in the East, too The lease to Cargill of the Superior terminal at Buffalo was relinquished at the end of the crop year 1929–1930, after three years, and the leases of four smaller terminals—at Owen Sound, Ontario; Sleepy Eye and Union, Minnesota, and LaCrosse, Wisconsin, totaling 2.5 million bushels—were not to be renewed. However, the large additions led to a net increase in total Company capacity—from 15,220,000 bushels in 1929 to 21,420,000 in 1930.

A planning memorandum on July 2, 1930, noted that "taking into account the lower price of grains now as compared with a year ago, it is probable that even with the addition of the space . . . our working capital requirements will be LOWER by from $2,000,000 to $6,000,000 than was the case last year . . . unless a large fobbing business is done at the seaboard." The report also emphasized the change in the "pipeline" concept

brought about by the Farm Board's actions with that May 1930 wheat futures contract at the Chicago Board of Trade: "Special attention is directed to the much greater security in our position in carrying unsold stocks in the West in our present plants and in the new elevators rather than in the East where they are subjected to a considerable hedging hazard."[4]

Early in 1931, a large terminal elevator in Superior, Wisconsin, the Itasca, became available for purchase. Cargill wanted it, but the restrictions in the Company's certificate of incorporation relating to the mortgaging of property while preferred stock was outstanding would have made direct purchase difficult. Thus, it was decided to establish a separate corporation, with the stock subscription to be offered to the holders of the Cargill Elevator common stock, on a basis of 1 share of Itasca for each 24 shares of Cargill. The subscription price was $120 per share. Most, but not all, of the common stockholders accepted, and the 2.4-million-bushel terminal was added to Cargill's Duluth/Superior capacity, which now stood at 7.2 million.

Later, this device of offering physical properties (not just terminal buildings but also shipping) to holders of common stock as separate, personal holdings was frequently utilized by Cargill.

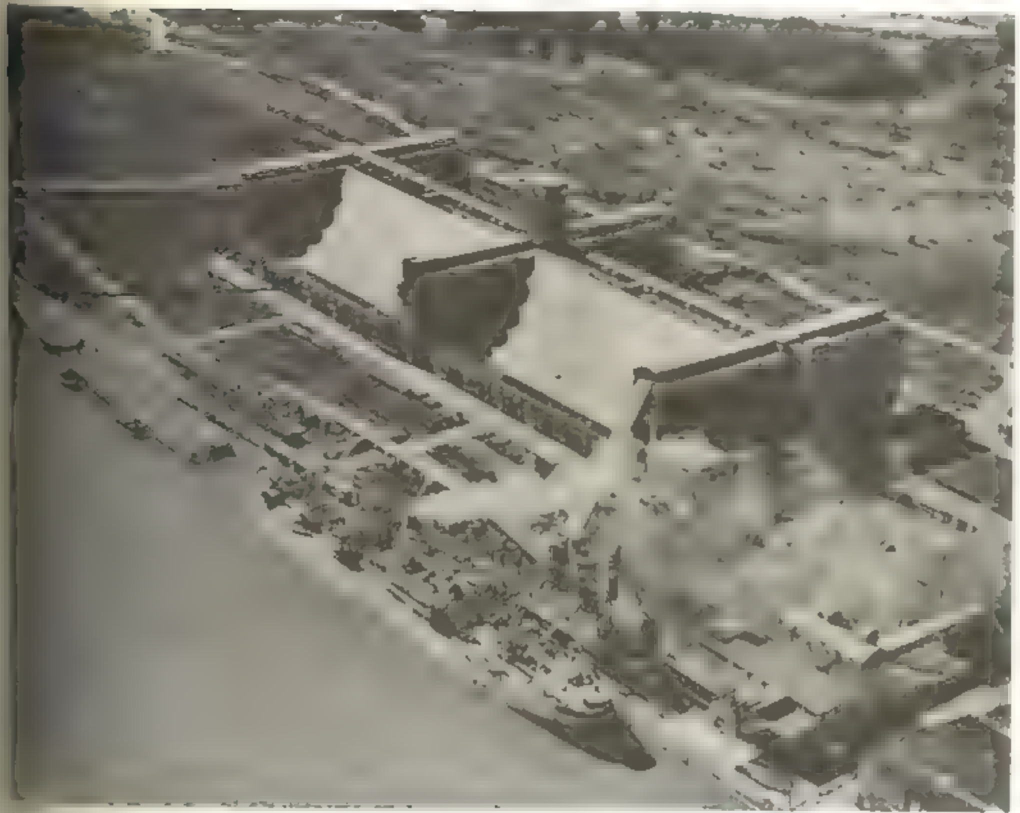
"The World's Largest Grain Elevator"

In the summer of 1931, a fresh proposal surfaced, one that was to be spectacular in its final form. This involved the new Albany deep-water port, where just-completed dredging had allowed a 27-foot depth, adequate for many oceangoing ships.

At the beginning, the story had a dash of drama to it. While on an inspection trip of the Erie Canal, John Jr. and Neilson learned that the Albany Port Commission was contemplating construction of a new terminal and was about to promise the lease to a Canadian syndicate. The two Cargill executives went immediately to the office of Peter G. Ten Eyck, the Commission's chairman. Ten Eyck had in mind a capacity of some 3½ million bushels and wanted to spend about $1.5 million for it. But, Ten Eyck told them, it seemed that building costs would be closer to $1 per bushel, similar to such costs at Buffalo and Montreal.

The two Cargill executives asked for a ten-minute recess, and returned with an offer: Cargill could, for $1.5 million, give the Commission at least a 12-million-bushel terminal, this in steel and concrete with pneumatic unloading, a car dump, and all of the equipment that ordinarily went into a first-class seaboard elevator.

Ten Eyck's reply was equally prompt. "If you gentlemen can return here in ten days' time with an offer from a responsible builder, I will break off negotiations with the syndicate and lease the plant to you." John Jr. once



Cargill's Albany terminal elevator, 1930s.

more had shown a high degree of entrepreneurship, making a decision to proceed without even a check back to Minneapolis and the Cargill board of directors—quick decision-making, bordering on impulsiveness, a trait likely encouraged by his father's unwavering support. The decision was all the more remarkable in that the Omaha terminal had been built under the belief that the Company's storage capacity needed to be moved west. In the two years of the Farm Board's management of the nation's grain supplies, very little grain export had been possible due to the artificially elevated United States price as against that of Europe. There was both vision and blind hope in John Jr.'s pursuit of Albany as an alternative deep-water port to that of Montreal.

He spelled out this vision in a memorandum to the Port Commission written on August 18, 1931. Using a small chart, he first showed the volume of business that Cargill did all over the Great Lakes. For the previous three

years, the total had been just at 30 million bushels each year. The estimate of Cargill's lake shipments for export, however, had dropped substantially over these three years, from over 10 million bushels in 1928 and an even larger 12.1 million in 1929 to a figure of 7.3 million in 1930 (the 1931 figures, when the year ended, would be even smaller). John Jr. asserted that Cargill was the largest shipper from the Great Lakes, exclusive of the Canadian Pool shipments, and that "this shipping business would render it a very simple matter each Fall to fill a large elevator at Albany with view of supplying its foreign trade in grain while the Port of Montreal is closed."

This could be matched equally with a backhaul: "As this grain is shipped out, the space so rendered available could be filled with cotton, rubber, sugar or coffee which would be ready to go West via the Erie Canal when navigation opens in the Spring." Thus, John Jr.'s underlying strategy contemplated that most of the Company's grain shipments would be from the Lakes through a newly improved Welland Canal (finished in 1932, with only eight locks, taking 30-foot draft vessels) to Oswego and thence by the Erie Canal to Albany (or, alternatively, from Buffalo straight through to Albany via the Canal). Later this would lead John Jr. to another set of innovations, these relating specifically to the Erie Canal itself.

Within days, Cargill had contacted the James Stewart Corporation, at that time the world's largest builder of grain elevators. Their bid came forward at the target price of $1.5 million, even adding an additional 1½ million bushels of capacity—now the total would be 13½ million bushels. The layout was similar to that at Omaha, with the four huge flat-storage areas; in this case the workhouse was located in the center. The Albany Port District Commission accepted the proposal forthwith; the Commission was to be the owner of the properties, with a long-term lease being tendered to Cargill.

Construction commenced immediately, and the entire operation was finished in the spring of 1932. The dedication of the Port of Albany in early June was attended by dignitaries from all over the state of New York, including Governor Franklin D. Roosevelt. The Cargill terminal was in full operation a few weeks later. At the start, the availability of tugs and barges held them back; John Jr. wrote Ten Eyck: "The only difficulty we have encountered has been the limited capacity of the Erie Canal. We have chartered all available equipment . . . but it has been entirely inadequate to take care of the volume which we would like to have moved."

Once again the banking community seemed skittish about the new configuration. C. V. Essroger, an officer at the First National Bank of Chicago, wrote John Sr. in July 1932: "There has been considerable gossip in the grain circles about these elevators . . . some of our friends think that there is considerable potential danger in loading up bins with 750,000 bushels, particularly if there be a wet harvest. They also think that there is a great risk of grain getting out of condition when stored in such large units, and that no real test has yet been made, as you have been handling mostly dry wheat."

John Sr. chose to sidestep the question, saying only, "We have found that by using the proper precautions this large type of bin is even safer than the old type." As to damp grain, "we would not think for a moment of using this type of construction for damp grain . . . using the precautions which we do, with the technical staff which we have developed for our type of business, we consider these bins altogether superior to the old type, all factors considered." This exchange must have been unsettling to the Cargill board, however: this time the writer was not Bert Lang, an old St. Louis banker friend, but an officer in one of Chicago's most prestigious financial institutions.[5]

Was the Omaha Terminal Safe?

Ever since the disastrous explosion at the Armour Grain Company in Chicago in 1921, in which four employees had been killed and the huge terminal and its 7.5 million tons of stored grain virtually destroyed, the grain and milling industries had become extremely safety conscious. Grain is highly combustible, grain dust particularly so; grain in piles sometimes does allow excessive heat buildup inside the pile, always with the possibility of spontaneous combustion. Fire is the companion of explosions, and grain burns readily. So it is often necessary to turn or to actually unload and refill a suspect grain bin.

The configuration of the new terminal at Omaha, with its four enormous bins, had raised questions of fire protection right from the start. However, the first safety problem at Omaha did not involve fire. In February 1931, two employees were standing on one of the enormous 1,250,000-bushel bins, helping to shovel it toward the loading mechanisms. Packed wheat can be walked upon, but it is treacherous. If the grain itself starts moving, it creates a suction power similar to quicksand. Suddenly, the wheat under the two employees did just that. Both were supposed to be wearing safety ropes, attached to the ceiling, but one of the employees (who had been at the company only a week) was not. He was sucked into the wheat, and despite frantic efforts to extract him it was too late; he was smothered to death.

John Jr. wrote his father about the incident: "We had the misfortune to have a man smothered to death in one of the large vats [the name "vat" had persisted despite John Sr.'s earlier admonition against it!]. Frank [Neilson] has investigated it fully and we were exonerated in every particular as

it was a clear case of gross negligence on the part of the man who was killed. Of course we were all very much upset and intend to do everything possible to prevent a recurrence of such a thing."

Just a few months later, on July 31, 1931, another accident happened at the Omaha terminal: a tremendous grain dust explosion tore out one of the sides and part of the roof of the structure. The roof was first hurled upward, then sagged back. Several grain bins burst outward, scattering huge concrete slabs over a wide area. Forty men were at work at the time; amazingly, not one of them was injured.

Nevertheless, the fact that an explosion took place led Neilson to even more stringent supervision. Accurate temperature measurements were an absolute necessity. When one supervisor there failed to keep steady measurements, Neilson wrote:

> I consider this one of the most serious offenses that you could commit, especially in the face of your knowledge that the grain you had stored in these bins was of high moisture content and of poor keeping quality. This offense is so serious that I have been very much undecided as to what action I should take in the matter. However, I believe that this experience should teach you a valuable lesson and that you should profit from it to the extent that there will never be a recurrence of it If it does happen again, drastic steps will be taken . . . they will not be to my liking or yours, either.

This second incident now prompted Bert Lang to write from St. Louis once again about the safety concerns. "In all frankness," he wrote, "men continue to whisper of the hazard that you folks, according to their version, have undertaken in the new storage construction which you have followed at Omaha, and as it comes to me, at Albany as well." Lang urged that Cargill make public its methods of turning the grain.

John Sr invited Lang to visit both the Omaha and Albany plants, especially the latter, "as the Albany plant represents all of the improvements that our experience at Omaha has suggested." Cargill's methods of measuring temperature and turning the grain were its own, and John Sr. felt quite proprietary about the information. "Of course I would want to ask that you would hold in confidence everything you would learn," he added.

Lang did visit Omaha and satisfied himself on the turning capacities. However, he was still unclear about the temperature measurement: "As I gathered it from Mr. Onstadt, you use the roof openings, or hatches as I call them, through which were inserted some kind of a plunger device which encased thermometers. . . If you will just tell me how this is accomplished I will appreciate it. Please do not hesitate for fear of insulting my intelligence, to go into this in the greatest detail." John Sr. balked at putting the details in writing but urged Lang to meet with him personally about Cargill's new innovation.

As Lang had also mentioned the possibility of a dust explosion, John Sr. added, "Mr. Brown, assistant to Dr. Price who is the head of the Dust Explosion Hazard Committee for the National Fire Protection Association, has examined the Omaha plant in person and passed on the plans of the Albany plant before it was built. His conclusion was that these plants were in his estimation the finest grain handling facilities in the United States . . . we do not believe that a serious dust explosion is possible in these plants."

Unfortunately, a second terrible explosion, this time involving loss of life, did occur at Omaha in November 1934; that story is in the next chapter.[6]

Breaking into Chicago

Although Cargill had traded commodities in Chicago for many decades, the Company had never had an office in that city. In a surprising move, the Company now decided to open one. A subsidiary, the Cargill Grain Company of Illinois, was formed in June 1931, and Philip C. Sayles was put in charge of its office there, in the downtown Board of Trade building. An exception to the promotion-from-within policy, Sayles had just come with Cargill the previous year from a partnership in an Ohio grain company.

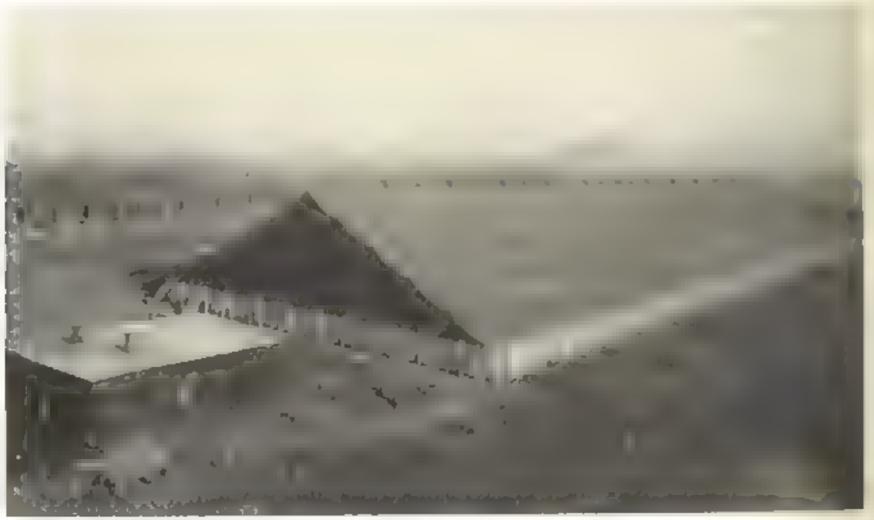
For years, Chicago had fascinated people. With a growing flamboyancy in the nineteeth century, its strategic position at the lower end of Lake Michigan had made it a hub. Railroads from the Upper Midwest were forced to go around Lake Michigan via Chicago. When the Illinois and Michigan Canal was first opened in 1848, there also became a water route to the Mississippi River and on to the Gulf of Mexico. Chicago had become a magnet for all of the Upper Midwest

Midwesterners seemed to hold a "love-hate" view of the Windy City. Although Chicago contained some of the country's strongest economic institutions, as well as a measure of great artistic and cultural endeavors, it was the "big, bad city" to many, particularly in the early 1930s. The Chicago office loved to regale the rest of the Cargill family with tales of the crime spree in the big city; in May 1932, the *Cargill News* posting from Chicago reported: "Chicago's public enemy No. 1, has finally been put away . . . the anticipated war for the control of Chicago's gangland has not yet taken place." Later that year, the *News* correspondent reported with a straight face about one of the members of the Chicago office "dodging gangster bullets."

Grain traders had ambivalent feelings about Chicago. Its strategic position made the city an inevitable shipping link for grain. Further, Chicago

housed the Chicago Board of Trade, critically important since the Civil War (founded in 1848). Vocally partisan opinions came from just about everyone involved with the CBOT. Flamboyancy was certainly a feature of the CBOT past, with the likes of "Old Hutch," the speculator, and the wealthy young lamb, Joseph Leiter, shorn of some $10 million by floor traders under the leadership of P. D. Armour. The venerable institution had continued to witness wild trading and swinging prices into the 1930s, often accompanied by the breath of scandal associated with some form of market manipulation. The "corner" was probably the most feared, but there was an almost infinite variety of tricks that could be called upon. Always, there had been an uneasy alliance among the various traders. Some were speculators; others traded more cautiously by "spreading" between market contracts; still others were using the commodity markets primarily to facilitate purchasing, processing and selling of the underlying agricultural commodities. For them, hedging was the key.

By the 1930s, Cargill was one of the major grain merchants in the country and a heavy user of the CBOT cash and futures markets. Both were fundamental to Cargill. John Sr. and John Jr. held unwavering beliefs about the CBOT, mostly negative. This hostility did not stem just from the delivery rule flap in 1930; it lay rooted in long-standing Cargill history. When John Sr. and his brothers (and father) had gone bankrupt in Texas before the turn of the century, their own situation likely had been affected by happenings in the CBOT, far away in Chicago. In the World War I days,



Chicago's "tabernacle" terminal elevator, c. 1935.

John Sr., as president of the Minneapolis Chamber of Commerce (the comparable grain trading exchange in Minneapolis) and at the national level participating in Herbert Hoover's food production efforts, had found dealing with the Exchange difficult and had formed a pervading distrust concerning the motives and operations of CBOT members. He passed these beliefs along to John Jr. John Jr. added further charges, alleging that the CBOT had been hostile about the Company's "several innovations in the grain trade," especially the grain laboratory.

In 1932, Cargill began the construction of a new "transfer" terminal in Chicago, adjacent to the huge Rosenbaum Brothers' 10-million-bushel elevator at lakeside. Cargill's capacity was just 1.3 million bushels (the *Daily Calumet* had touted it as 16 million bushels). Yet its small capacity belied its importance. The design was unorthodox, having some similarities to the Omaha terminal. The long rectangular building had the same roof configuration—the low inverted V—and Cargill people began calling it "the Tabernacle."

The Cargill operation was largely transfer. Grain cars would come in from the Chicago & North Western Railway to be switched, eight cars at a time, by a small Cargill locomotive. Grain was transferred out of these cars by electric power shovels onto an endless belt conveyor that carried the grain up an incline to a tripper tower, where it was dumped directly into the Rosenbaum elevator's marine gallery, feeding the loading spouts of the boats lying at the shipping docks. Some storage also was possible in flat storage areas, as in Omaha.

In its first full year of operation, the Chicago transfer house handled 12 million bushels; the following two years' totals were considerably less, about a quarter of that first amazing performance. An earlier Cargill history explained this: "The device was a makeshift with severe limitations, and . . . provoked an adverse psychological reaction on the part of competitors. Its operation was made possible largely because this was the bottom of the depression, and lake vessels were plentiful and willing to risk a long stay in port."

With the lowered volume of the 1934 and 1935 crop years from the Dust Bowl, the costs of unloading, transferring and loading rose to figures among the highest in the Company. Yet comparative cost figures like these are often misleading. Far more important was the fact that Cargill now had its own terminal entrée in the tightly knit, highly important Chicago grain market.[7]

Wage Cuts

Over the spring and summer of 1931, the employment situation in Minneapolis had deteriorated severely. By September, the Minneapolis Indus-

trial Committee, a prestigious group of the city's business leadership, conforming to national efforts, began urging employers to exert every effort to keep their present employees on the job and to divide employment among as many family units as possible. The committee had a number of suggestions for specific actions, including part-time employment, rotating employees for alternate weeks, and so on. They urged that employers "maintain normal buying of needed merchandise and materials" and "advocate your employees doing likewise."

In late December 1931, there was another public admonition to employers, this time a long-awaited report of the National Technological Employment Committee, appointed earlier in the year by the Secretary of Labor to investigate the country's deteriorating employment situation. Its chairman was Dr. C. A. Prosser, the head of the Dunwoody Institute in Minneapolis. The report earned a first-page headline in the *Minneapolis Journal* when it was released on December 23: "Drastic Industry Changes Urged . . . Prosser Group Survey Declares Job Must Be Assured All." The committee had urged industrialists to maintain employees in their jobs at their existing wage scales to as wide a degree as possible, and if this could not be done, to institute a scheme of unemployment payments. To Prosser and his colleagues, the need to maintain purchasing power dictated such an effort.

The article gained wide attention. John Sr. saw it and immediately sent a lengthy letter to Prosser, taking issue with a number of the committee's ideas. "There are a limited number of industries who could possibly work out such a solution," he began. He then recounted some chats he had had with workmen building his new home near Lake Minnetonka: "While they did not like to see the possibility of unemployment, yet I found they were quite cheerful about it because they said they could exist . . . on the home places that they owned." With the automobile and rapid transit, John Sr. felt it "entirely possible for a workman to own a home and live on it for a distance at least 15 miles away from his place of employment." He concluded: "If a worker had his own home, his own garden, cow and chickens, he might not have money for luxuries but at least could maintain his independence and his existence."

Prosser dismissed John Sr.'s concern about "distribution of the working class on the land" as a panacea, emphasized that his committee too felt that the dole system "is the worst of all remedies—more deplorable than poor relief," but he again emphasized that they believed the remedy for unemployment was a job "at wages sufficient to maintain a decent standard of living." He concluded: "The truth is I fear paternalism as much at least as you do. But I fear also the failure of American businessmen to realize fully the existing conditions and problems and the need for the definite planning of new economic policies and methods for prompt action."

John Sr. had been expressing cautionary, essentially pessimistic views of Cargill's situation as early as August 1931, when he wrote Lindahl in Duluth concerning an impending retirement there. Company policy put people on the retired list at half pay, subject to change if the board of directors deemed it necessary. John Sr. wrote: "There is, of course, always the possibility that changed business conditions might make it impossible to maintain the pension system . . . the political situation and crop failures together make me feel unusually cautious at the present time."

By October 1931, Lindahl was indeed putting employees on part-time work. John Sr. asked for a full listing of all company employee salaries, years in service and marital status. Certain people on the list were flagged as possible candidates for further layoffs; the listing of the "wheat account employees," for example concluded that "employees marked (X) will be dropped very shortly. If necessary, 'A' to 'E,' inclusive, in order named." Monthly salaries ranged from $60 to $100 for clerks and stenographers, $135 to $250 for traders and minor managers, and up to $583 for senior traders and department managers. John Sr. topped the executive salaries at $4,166 per month; John Jr. received $1,500; Daniel MacMillan, Ed Grimes, Lindahl and Hendel were at $1,250; Austen Cargill, $1,000; and Cargill MacMillan, $600.[8]

The exchange of letters with Dr. Prosser occurred over the Christmas season, and John Sr.'s Christmas greeting to the employees in the *Cargill News* also mirrored his heightening concern. "It has been a year of trial and tribulation but I hope we are all the better for the experience." There were two supreme tests of character, he stated—great prosperity and disaster. As a nation, great prosperity was proving demoralizing. "We needed the chastening effect of trial and tribulation." The letter ended with a ringing denunciation of "government interference in purely personal and business affairs."

Over the winter and early spring of 1932, John Sr. became more pessimistic about the business, heightened by his serious illness in that period. In spite of the excellent earnings of the previous year, in late April 1932, he decided to make an across-the-board wage cut at the Company. No written record remains of how John Sr. arrived at this decision. In past years, on a decision of this importance, he undoubtedly would have talked it over with Frank Hixon. But early in April 1932, just before the wage-cut decision, Frank Hixon died. Julius Hendel was elected to the board of directors in his place at the next meeting.

John Sr. felt very deeply about the loss of Frank Hixon. From back in the days of the MacMillan bankruptcy, from the difficulties following the death of W. W. Cargill (when Hixon was one of the administrators of the

estate) through the reorganization under the Creditors Committee (Hixon was one of the three), through the innovative reorganization in 1916, involving sales of common stock to employees, through the traumas of the 1925 interfamily squabble, this truly outside board member had made unique inputs to the Company. John Sr. came to Hixon at each of these crises and at other times of lesser importance throughout their long association. In a very real sense, Hixon's death marked "a passing of the guard," particularly because it coincided with John Sr.'s heart attack and his resulting disengagement from Cargill affairs. Frank Hixon was the most important member of the board of directors to die since W. W. Cargill.

John Sr. announced the 20 percent wage reduction in a letter to all employees on April 29, 1932. "This is the first general cut in salaries in the history of the Cargill Companies and is due to causes entirely beyond control," he explained. The "primary cause" was attributed to "the crop failure in our Northwestern grain growing states this past year," although the year-end figures on these grains two months later showed only a small drop from the previous excellent year. "The continued political interference with the grain business has been a close second," John Sr. continued; "the volume of business has decreased to a pitifully small amount." (Again, this was a substantial, deliberate understatement of the actual results.) While he ended the letter on a positive note—"I feel sure you will all accept this cut with the best of good feeling, realizing that . . . we are trying to make more permanent your positions"—the general tone indicated a feeling that events now seemed beyond his control. His heart attack certainly must have added to his pessimism.

The next issue of *Cargill News*, in May, carried a lengthy unsigned editorial on the wage cut, probably written by the editor, T. R. Shaw. Entitled "Ruts," the piece seemed to place some of the responsibility directly on the shoulders of the employees:

> Some of life's habits lead us into ruts from which only a severe jolt can release us. It is very easy to settle down to routine work and become so familiar with it that it does not require any special mental or physical effort. We become mentally lazy, taking everything for granted, do not bother to analyze or study out a proposition or new idea—just drift through life in the easiest and simplest manner possible. Many of us have been drifting along in a very comfortable and contented rut, not realizing how fortunate we were, but the 20% jolt this month has certainly pushed us out of this rut.

The editorial then reiterated the "getting back to basics" views of John Sr.: "We will have to do without some of the comforts and luxuries that we thought were indispensable. Getting back to the simple life may be one of the best things that ever happened to us, and we should all be thankful that we are still on an 80% basis." The writer, closing with a homily about "economy in everything," ended:"This is the time to get out of our Ruts and at least try to keep up with the progress of the House of Cargill."

Despite those substantial earnings for the crop year 1931–1932, the dividend on the common stock also was passed over; the general letter to the common stockholders, on July 1, 1932, referred directly to the crop failures, then continued: "We have more than earned dividend requirements. However, on account of the unusual business conditions, together with uncertainty as to the Northwest crop conditions, the Directors deem it wise to defer action . . . until such time as the future outlook is favorable."

John Sr. received an unexpected response to the passing of the dividend; Robert Hixon was the administrator of Frank Hixon's estate and wrote John Sr. a week later:

> I have to look forward to the payment of a considerable inheritance tax, and also a sufficient amount of funds to distribute as dividends to the stockholders of Pioneer Investment Company. In looking over your statement of the previous year I note that you had $2,000,000 in cash on hand, and if it is anything like this amount, it is difficult to understand why the dividend has been withheld, particularly in view of the fact that from all the advices which I have received from St. Paul and Minneapolis it would appear that the Northwest is almost certain of a fine crop.

John Sr. responded immediately, promising that it was likely that the dividend would be paid before the end of the current year. The principal reason for the decision, John Sr. stated, "was the retiring of 2578 shares of employee stock and the issuing to them of 4636 shares of par 5% Second Preferred. . . . As this involved a heavy charge against our surplus account we did not feel it advisable to show a decrease in our capital structure."

In the corporate minutes, these reasons were stated in a different way: some $138,000 in cash had been paid out to those employees who had cashed in their common stock. "The cash payment was found to be necessary due to the fact that many of the employees had loans against their stock, for which they needed cash." An additional $280,000 of accounts receivable also had been written down, and for these reasons, "the Directors had deemed it advisable to defer action on the dividend on the Common stock."

The economic situation, for the Company at least, was not as grim as John Sr. had pictured it earlier in the year, so by mid-July 1932, some but not all of the wage cuts were rescinded. John Sr. spelled this out in a letter to Harold Tweeden on July 18: "We have been waiting for crop news before deciding that we would dare to restore to their former basis the salaries of those executives who had really produced last year." At this point in the letter, John Sr. restored Tweeden's own cut, then continued with an essentially "meritocracy" rationale: "The theory of this is that those executives who initiated and executed money saving or money making plans should not be cut, if possible, but that those who were engaged in practically

routine work and whose services could be replaced without too great inconvenience, should follow the market downward."

Tweeden himself was to be given some discretion for his own people: "This leaves us with an intermediate group which is hard to assign to either one or the other . . . such men as Frank Schonhart, Mr. Irwin and possibly Brown . . . we are leaving it up to you to decide whether they should be restored to their former rate or only partially restored or left where they are." Apparently this became overall company policy—to restore the wage cuts on a selective basis, based upon individual merit and productivity (the senior executives put themselves last on this). The passed dividend for common stockholders also was restored, on December 8, 1932; it was $7 per share, just as in the previous year.[9]

John Sr.'s Christmas greeting in the December 1932 *Cargill News* sent a more buoyant message, although he was still cautious: "There is a growing tendency to look at the future from a fearful point of view. Fear does not beget clear thinking . . . we must . . . think fearlessly, clearly and honestly." Perhaps this was also a sermon to himself; nevertheless, he was not willing to let all barriers fall: "We must not fool ourselves by hoping and thereby assuming that conditions are better than they really are. . . . Let us then face the new year squarely and honestly, accept our losses with the good grace of a good loser, and rebuild on foundations that have truly sound footings."

John Jr. Takes on the University of Chicago

Ever since Britain had reestablished a gold standard for its currency in 1925, it had had recurring problems of gold outflow (Winston Churchill, then Chancellor of the Exchequer, had adopted the prewar exchange parity that overvalued the pound sterling). This gold standard, which the rest of the major financial powers also had adopted, came under severe pressure in the Great Depression. Britain was the first major country to cut the link, the Bank of England going off the standard on September 21, 1931. The British Commonwealth countries then had their own currencies suffer comparatively; Canadian exchange rapidly dropped from close to par to a 15 percent discount against the dollar by early 1932.

By March 1932, there was widespread discussion of the possibility that the United States itself would go off the gold standard. John Jr. was highly disquieted about this, and it took only another event, two months later, to send him through the roof. In late April 1932, the University of Chicago had sponsored a series of discussions, "Gold and Monetary Stabilization," and several university economists advocated extensive governmental intervention via emergency governmental expenditures, despite any untoward effects on the price of gold. Indeed, the economists noted that it might be necessary to "abandon gold for a time."

John Jr. became highly incensed and wrote a long letter to his Uncle Will, a University of Chicago mathematician, accusing the economists of "repudiating our debts by inflation" and revealing "a childish ignorance of . . . the law of supply and demand." He ended questioning "the honesty of their motives."

Perhaps if John Jr. had left the matter there, nothing much would have come of it. After all, a great many businessmen—and college professors—had just as strong feelings about governmental intervention as did John Jr. But he chose to carry it further: he wrote a captious letter to Robert Maynard Hutchins, the president of the University of Chicago, that ended: "It is my sincere hope that you and your trustees will take immediate steps to purge your faculty of these and other irresponsible and dishonest agitators."

Had the economists been a group of young, untried scholars, criticism of this personal sort might have been understandable. To the contrary, the 12 University of Chicago professors involved were all nationally known economists, several of them of world-class level—Paul H. Douglas, Frank H. Knight, Harry A. Millis, Lloyd Mints and Jacob Viner, among others. Hutchins acknowledged the letter with a curt, one-sentence reply that he was referring John Jr.'s letter to the chairman of the department. No record of any reply from the latter remains in the records.

Uncle Will saw the letter of John Jr. and angrily wrote John Sr.: "The sentiments and ideas expressed in Junior's letter are thoroughly bad. They are intolerant and bigoted and will not produce the desired effect upon a University president. They might be all right for a politician, but a thoughtful man will dismiss them immediately." Clearly, Will MacMillan was quite embarrassed by John Jr.'s letter to Hutchins.

John Sr. shared Will's letter with John Jr., but the latter was still unconvinced and unbending, telling Will, "I do not agree with you in your statement that economics is not an exact science. It is exact except insofar as price relationships can be temporarily controlled artificially . . . the intent of the proposal of your economists then is either dishonest repudiation of debt or else reveals a childish ignorance of the fact that the law of supply and demand applies to gold just as it does to other commodities . . . in my opinion your economists cannot be called too hard for advocating any scheme to try to fix the price of gold . . . they should be called sharply for openly advocating dishonesty in an institution of learning."[10]

Burned on Argentine Pesos

Early in 1932, Cargill had contracted with the Buenos Aires, Argentina, branch of Louis Dreyfus & Company for purchase of a large amount of linseed oil. The contract called for Dreyfus to be paid in Argentine pesos, in Argentina. Cargill went to the Foreign Department of New York's Na-

tional City Bank and purchased 200,000 pesos for July delivery in Buenos Aires, at 25¾ (a total of $51,500). In July, when Cargill tendered its pesos at the Dreyfus office, the latter informed Cargill that the pesos it had purchased from National City were restricted only for domestic use in Argentina, rather than being in a separate category of "external" pesos that were eligible for free use domestically or in foreign exchange. Cargill would have to apply to the Argentine government for permission to have their pesos made applicable for foreign exchange. The process was known to be extremely difficult.

This came as a complete surprise to Cargill senior management. Not having a company employee on the spot in Argentina, they had assumed that National City Bank would provide the correct type of pesos. Cargill then went to the bank to have the matter rectified, but the latter refused to exchange the limited pesos for the freely exchanged pesos. John Jr. sent a telegram to the bank, alleging that "this whole transaction seems to me to reflect on the good faith of your foreign exchange department."

The bank officer, a senior vice president, replied: "Your original telegram gave no indication that you wanted pesos available for export purposes. Your people must have known that there were export restrictions and were the only ones who would know that the pesos were to be used for this particular purpose. . . . It is true that pesos have declined in price . . . this is part of the risk inherent in a forward purchase just as it might be in a commodity market. . . . I am sorry that you will suffer a loss if you sell the pesos in today's market . . . but what you have are good sound pesos, which cannot be questioned."

Cargill MacMillan, attempting to pour oil on the troubled waters, wrote the officer handling Cargill's domestic business with the bank: "I did not wish to argue with Mr. Simonson, because he had told me that he had rather taken offense at a message my brother had sent to you, and I, therefore, felt that if I argued further he might take further offense. . . . We believe that inasmuch as you handle our account and know us that you will appreciate that we most earnestly and sincerely feel that we have a grievance and are not simply yelling because we have been hurt." This effort did not produce any further results, and finally, in late September, John Jr. proposed that the whole matter be settled "by informal arbitration."

The bank, however, refused to entertain any such notions. John Sr. entered the fray, sending a long letter to Cargill's domestic link at the bank:

> My first impression was that our organization must have been at fault, and the fact that it was our first transaction in Argentine pesos made it altogether likely that in our ignorance on this subject we must have blundered. However, I have checked up with other bankers who are familiar with such problems, and in no instance have we found one who thought that we had blundered or that we are under any obligation to accept anything but the official pesos. I greatly regret that someone in Mr. Shaw's department blundered and took it upon himself to assume that because you had customers who could use this type of pesos that it was reasonable to assume that we could use them also. Even granting that whoever handled this may have felt this way, at the same time it was clearly his duty to give us the facts so that we could determine for ourselves whether this character of transaction would be acceptable to us.

The bank responded with an offer to make up the difference between the rate of the freely traded pesos and the restricted pesos. However, it flatly refused to exchange the limited pesos for a new set of free pesos. John Sr. rejected this proposal: "We cannot come to any other belief but that we paid for official government pesos and we, therefore, must insist that such should have been delivered." This letter finally brought action from the bank, and the vice president of the Foreign Department agreed to cancel completely the Cargill contract. John Sr. responded, "We are glad to note your conclusion of this controversy, which I can assure you has been most distasteful to this organization."

Then John Sr. received a shock: The officer at the bank who was Cargill's regular domestic contact wrote back that the situation had "created a condition which leads me to suggest that I am very doubtful that your active relationship with this institution will be one of mutual satisfaction in the future, so I suggest that it be terminated." John Sr. replied: "I had supposed that Mr. Shaw's last letter was an acknowledgement that he was finally convinced of the correctness of our position in the matter of the Argentine pesos and I am very much surprised to learn the contrary. It is of course useless to maintain business relations except where there is mutual confidence and trust."

John Sr. seemed unable to let the matter rest (a trait he was to show more of later), and sent another long letter back to the officer. He first outlined Cargill's view of the situation itself, then continued: "The transaction referred to, we think, was one of exceedingly sharp practice . . . to our great surprise neither of you would investigate. We then took what appears to us the reasonable procedure of asking for a friendly and informal arbitration . . . and again were refused." He ended the letter: "I can only say that I have treated The National City Bank exactly as I would want one of our customers to do with us under similar circumstances, for I do not believe that either one of us will stand for sharp practices at all. That is why I feel so confident that some day you will see fit to express regret at the stand that was taken and admit that our position was right and just."

This brought an outraged letter from the bank officer: "You speak of apology due you. To this I cannot agree, but frankly if there is one due it